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# **2021 Annual Report of the Public Utilities Commission of the Republic of Latvia on the National Energy Sector, Prepared for the European Commission**

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## I Foreword

The Public Utilities Commission's (hereinafter – Regulator) report provides an overview of the regulatory developments of the electricity and natural gas sectors in Latvia in 2021. Regulatory activities covered various tasks, mainly stemming from continued implementation of the European Union (hereinafter – EU) directives or regulations, both in electricity and natural gas sectors.

In the electricity sector national regulatory authorities (hereinafter – NRAs) and Ministries of the Baltic States continued their coordinated work to transpose the requirements set out in the Clean Energy Package, working in close cooperation with other NRAs of the EU.

The Regulator continued the implementation of the European Commission's network codes to establish a unified, coordinated, and appropriate single day-ahead and intraday electricity market coupling, being more focused on system operation and balancing issues in 2021.

In 2021 within the framework of the project of synchronization of the Baltic States' electricity systems with the electricity systems of Continental Europe the Regulator based on Baltic electricity transmission system operators (hereinafter – TSOs) study "Baltic reserve capacity market study" carried out an assessment of the need to use Battery Energy Storage System (hereinafter – BESS) to ensure the success of the synchronization process safeguarding frequency quality.

A single natural gas transmission entry-exit system of Finland, Estonia and Latvia (hereinafter – FinEstLat system) successfully completed its second year of operation. Continuing to promote the operation of the FinEstLat system as well as the awareness of system users, a storage capacity auction calendar was introduced, the balancing regulation of the Estonian-Latvian common balancing zone was improved. The Baltic and Finnish NRAs and natural gas TSOs continued working on a four-country market model to include Lithuania into the regional natural gas market.

Alda Ozola

Chair

The Public Utilities Commission of Latvia

## **II The basic organizational structure and competences of the regulatory authority**

The Regulator was established and operates according to the Law on Regulators of Public Utilities. The goal of this law is to ensure the possibility of receiving continuous, safe and qualitative public utilities, whose tariffs (prices) conform to economically substantiated costs, as well as to promote development and economically substantiated competition in regulated sectors.

The Regulator regulates the provision of public utilities as a commercial activity in the following sectors: energy (electricity, natural gas and thermal energy), electronic communications, postal services, municipal waste management and water management, and in accordance with the Packaging Law from 1 July 2020 Regulator is responsible for a new sector – the deposit packaging management.

According to the Law on Regulators of Public Utilities, the Regulator is an institutionally and functionally independent regulatory authority. The Regulator independently performs the functions delegated by the Law on Regulators of Public Utilities as well as other sector-specific legislation and, within the scope of its competence, takes decisions independently and issues administrative acts binding upon specific providers and users of public utilities. The Regulator's decisions may be declared unlawful and repealed only by the court.

The main functions of the Regulator are:

- protect the interests of customers and promote the development of providers of public utilities;
- determine the methodologies for calculating and setting tariffs or the upper limit of tariffs, and also the procedures for applying tariffs or the upper limit of tariffs;
- determine the tariffs or the upper limit of tariffs;
- license and register the providers of public utilities;
- examine disputes;
- promote competition in the regulated sectors;
- supervise compliance of the public utilities with the Law on Regulators of Public Utilities, special regulatory enactments of the regulated sectors, conditions of the license or conditions of general authorisations, as well as various requirements related to quality, technical regulations and standards;
- provide public information about its activities and operations of public service providers.

According to Republic of Latvia the Cabinet of Ministers Regulations regarding types of regulated public utilities in the energy sector (electricity and natural gas), the Regulator regulates:

- the generation of electricity in power plants if the installed electric capacity is more than one megawatt;

- the generation of electricity in cogeneration mode if the total installed electric capacity of cogeneration power plant is more than one megawatt;
- electricity transmission if the voltage is 110 kilovolts and higher;
- electricity distribution if the voltage is higher than one kilovolt and does not exceed 110 kilovolts;
- the trade of electricity to any energy user;
- provision of the demand response service;
- the transmission of natural gas through pipelines;
- the storage of natural gas intended for sale in containers or storage sites;
- the distribution of natural gas;
- the trade of natural gas to any energy users, except the trade of natural gas in gas filling compression stations for vehicles;
- liquefying of natural gas or receiving, unloading, storage and regasification for further delivery to the natural gas transmission system.

The Regulator consists of a Board composed of a Chairperson and four members appointed by the Parliament and an executive body subordinated to the Board. For the purpose of introducing appropriate rotation of the Chairperson and members of the Board the Chairperson is appointed for seven years, two members of the Council - for six years and two members of the Council - for five years. The Board takes decisions on behalf of the Regulator and approves administrative acts which are binding for specific public service providers and customers. The executive body operates under the oversight of the Regulator's Board, and it serves both as a secretariat and as the provider of expert services. The executive body prepares issues and documents for examination at the Board meetings, enacts approved decisions and oversees the implementation of those decisions.

The Electricity Market Law and the Energy Law establish effective, proportionate and dissuasive financial sanctions in the electricity and natural gas sector, namely, the Regulator has the right to apply financial sanctions up to 10% from the net turnover of the previous financial year of the regulated service provider, however not less than EUR 300, in case of failure to comply with their obligations under the relevant national and EU legal acts. Regulations of the Cabinet of Ministers set out a detailed procedure on how the Regulator must calculate the volume of fines.

As regards tariff calculation in the electricity and natural gas sector, methodologies for the calculation of storage, transmission and distribution system service tariffs have been elaborated based on the Electricity Market Law, Energy Law and the Law on Regulators of Public Utilities, and by taking into consideration regulations related to the supply and trade of electricity and natural gas, as well as other legal acts which are in force in Latvia. The main principles set out in these methodologies are the following:

- the regulated utility must clearly and unambiguously reflect the cost of each regulated service, including only those assets and activities which are related to the regulated

services. The regulated utility must apply the cost allocation model according to basic principles and specifications that have been approved by the Regulator. The cost allocation model must be comprehensive and is approved by the Regulator.

- the regulatory asset base and the rate of return on capital must be used in determining capital costs. The rate of return on capital is the weighted average return rate from the rate of return that applies to equity and long-term interest rates on borrowed capital, as defined by the Regulator. The rate of return on capital is calculated for a specified proportion between equity and borrowed capital. The Regulator annually sets the rate of return on capital for each sector, the rate is applied if a new tariff proposal is submitted.
- tariffs must correspond to economically justified costs. When setting the tariff, the Regulator must perform analysis and assessment of costs and profits.

According to the existing procedure, providers of public services submit substantiated tariff proposals. The Regulator must approve or reject the proposal within 120 days. The time when public utilities prepare the requested additional information does not count towards these 120 days. The Regulator's decisions can only be challenged in court.

A service provider may submit a request to the Regulator to receive a permit to set the tariff by itself. In this case, the provider shall publish the tariffs in the official Gazette of the Government of Latvia not later than within two months prior to the entry into force of the new tariffs and shall inform the Regulator (in some cases – one month). The service provider shall submit to the Regulator a substantiation for the new tariffs and information regarding the actual costs, forecasted data regarding the new tariffs, and other documents that substantiate the need for the new tariffs. The Regulator shall, within 21 days, evaluate the conformity of the submitted tariffs to legal acts and the economic substantiation of tariffs, as well. If the Regulator has not taken a decision regarding the non-conformity of the submitted tariffs to legal acts or has not rejected the economic substantiation, the tariffs shall come into force on the date specified by the service provider.

The Regulator has the rights to initiate a tariff review if significant changes affecting income or costs of service provision are observed or might be predicted. In this case, the Regulator requests the service provider to submit a new substantiated tariff proposal. The Regulator also may, according to the methodology for calculating and setting tariffs or the upper limit of tariffs and also the procedures for applying tariffs or the upper limit of tariffs, change the draft tariffs of a provider of public utilities, if in the process of evaluating the draft tariffs the provider of public utilities fails to provide additional information to the Regulator on the justification of the costs forming the tariffs or if any of the costs forming the tariffs are economically unjustified, and the Regulator can justify that during the evaluation of the draft tariffs in any other legal way.

### **III Major developments over the last year in the electricity and natural gas markets**

International cooperation is essential to ensure that the energy market functions and develops properly. Regional cooperation on specific cross-border issues is a foundation for successful implementation of the EU legal norms at European level. In 2021, the Regulator participated in forums, conferences and workshops at international level on a regular basis.

As the Network Codes requires Agency for the Cooperation of Energy Regulators (hereinafter – ACER) or regulatory authorities to approve the terms and conditions or methodologies developed by TSOs or nominated electricity market operators (NEMO), the Regulator participated in the ACER respective working groups and in the Baltic Capacity Calculation Region (hereinafter – Baltic CCR) NRAs decision-making process on the methodologies under the respective Network Code. In 2021, in relation to the implementation of the requirements of the EU Network Codes the Regulator has adopted a total of 3 decisions.

According to the Lithuanian Law “On Necessary Measures for Protection against the Threats of Unsafe Nuclear Power Plants in Third Countries”, electricity generated in unsafe nuclear power plants (except for energy necessary for the maintenance of the network) may not enter the Lithuanian electricity market and therefore the capacity for trading with third countries (Belorussia – Lithuania) from 3 November 2020 was removed. Latvian Cabinet of Ministers issued a decision that the electricity generated in Belorussia should not be traded in Latvia. However, the trading with Russia should be continued. Taking into account the above and the fact that the Astravjec (Belarus) nuclear power plant started supplying electricity on 3 November 2020, the Regulator supported the methodology “Terms, Conditions and Methodologies on Cross-Zonal Capacity Calculation, Provision and Allocation with Russia” jointly developed by the Baltic TSOs.

When the Astravjec nuclear power plant started operating the Methodology ensured the continuity of electricity trade with Russia, as well as determined the reduction of trade capacity with third countries, excluding the Belarus-Lithuania interconnection capacity.

On September 15, 2021, the methodology for the calculation and allocation of cross-border capacity with third countries developed by the Lithuanian electricity transmission system operator Litgrid AB, approved by the Lithuanian NRA, came into force. Taking into account the above, the Estonian electricity TSO Elering AS and the Latvian electricity TSO JSC “Augstsprieguma tīkls” jointly developed the Methodology on cross-zonal capacity calculation and allocation with Russia. On 30 September 2021, the Regulator and on 11 October 2021 the Estonian NRA endorsed the mentioned methodology by which changes were made in the trading capacity with Russia calculation formula, preventing that the available capacity of Belarus-Lithuania is not excluded from the total capacity calculation with Russia in double because such exclusion is already included in Litgrid AB methodology.

On 6 September 2018 the Regulator and Estonian Competition Authority took decisions on Estonia-Latvia Bidding Zone Border Specific Annex for the Baltic Capacity Calculation Region to the All TSOs' Proposal for Harmonised Allocation Rules for Long-term Transmission Rights in Accordance with Article 52(3) of Commission Regulation (EU) 2016/1719 of 26 September 2016 Establishing a Guideline on Forward Capacity Allocation<sup>1</sup> (hereinafter – HAR Annex).

The first yearly auctioning of Financial Transmission Rights (hereinafter – FTR) on Estonian-Latvian border took place from 23 October 2018 to 29 October 2018 on the Single Allocation Platform (hereinafter – SAP) (before the auctioning was managed by the Latvian and Estonian TSOs) in accordance with the ACER's decision of 2 October 2017 on Harmonised Allocation Rules for Long-term Transmission Rights<sup>2</sup> (hereinafter – HAR Rules) and HAR Annex. In 2021 quarterly and monthly auctions also took place. In accordance with the analyses of the 2021 yearly auction 16 companies participated in the auction and 4 companies got the right to hedge the price differences on Estonian-Latvian border towards to Latvia.

Second stage of project of synchronization of the Baltic States' electricity systems with the electricity systems of Continental Europe foresees the installation of BESS. Article 54(1) of the (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (hereinafter - Directive 2019/944) stipulates that TSOs shall not own, develop, manage or operate energy storage facilities. However, according to Article 54 (2) of Directive 2019/944 the BESS included in the project of the second stage of synchronization can be owned by the TSO only after conducting a market test, as a result of which it will be identified whether sufficient frequency containment reserves (FCR) will be available in the Baltic States in a continuous time, as well as frequency restoration reserves and replacement reserves with automatic control (aFRR) and, accordingly, whether BESS owned by the TSO will be required as a guarantee for the safe operation of the electricity system.

The Regulator, after evaluating the results of the study "Baltic reserve capacity market study" (market test) conducted jointly by the Baltic TSO, received on 22 June 2021, concluded that there is a sufficient basis for allowing the electricity TSO JSC "Augstsprieguma tīkls" to purchase and install BESS, own, develop and operate them. Since Directive 2019/944 has not yet been transposed into Latvian national legislation, the Regulator asked the Ministry of Economy, as the developer, organizer and coordinator of the energy policy, and the Ministry of Finance, as the holder of JSC "Augstsprieguma tīkls" equity shares, to refer the issue of granting a derogation from Article 54 (1) Directive 2019/944 to the Cabinet of Ministers for consideration. The Cabinet

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<sup>1</sup> [http://www.ast.lv/sites/default/files/editor/metodikas/Igaunijas - Latvijas robezas pielikums.pdf](http://www.ast.lv/sites/default/files/editor/metodikas/Igaunijas_-_Latvijas_robezas_pielikums.pdf)

<sup>2</sup> [https://www.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Individual%20decisions/ACER%20Decision%2003-2017%20on%20HAR.pdf](https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Individual%20decisions/ACER%20Decision%2003-2017%20on%20HAR.pdf)

of Ministers with 24 September 2021 order No. 674 allowed JSC "Augstsprieguma tīkls" to own, develop, manage and operate BESS.

The Baltic Electricity and Gas Market Forums take place twice a year, where NRAs from the Baltic States, Poland and the Nordic countries, TSOs, NEMOs, ACER, Finnish and Lithuanian gas exchange representatives, as well as traders and representatives from the Ministries raise issues concerning Network Code implementation, technical and economic challenges in the regional energy market, implementation of Regulation on Wholesale Energy Market Integrity and Transparency (REMIT), as well as coordination and assessment of the cross-border investments of the projects of common interest and other topics that contribute to the development of the regional and EU wide energy market. Discussions regarding the European perspective on optimization of the common energy market performance, implementation of European Green Deal, market design in the Baltic States after synchronization with the continental European electricity system, lessons learned from the merger of the natural gas market of Finland, Estonia and Latvia and actions to be taken for the four country (all Baltic States and Finland) market merge unification of the market of 4 countries are the most important topics in the Electricity and Gas Market Forums.

On 20 April 2020 energy ministries, NRAs and TSOs from Finland, Estonia, Latvia and Lithuania (hereinafter – FinBalt) gave their agreement to a Roadmap on regional gas market integration between Estonia, Finland, Latvia and Lithuania<sup>3</sup> establishing a process for the future regional natural gas market integration of their respective countries. This common regional gas market will be the first four-country wide cross-border gas market merger in the EU and it will reinforce the security of supply in this region strongly dependent on imported gas, increase market liquidity and foster competition. At the end of 2021, FinBalt TSOs in accordance with the Roadmap submitted the developed proposal on the inter-TSO compensation (hereinafter – ITC) mechanism to the FinBalt NRAs for the coordinated opinion on ITC mechanism among FinBalt TSOs and FinBalt system entry tariff and the NRAs began a thorough evaluation process of the proposed ITC mechanism.

## **IV The electricity market**

### **1.1. Network regulation**

#### **1.1.1. Unbundling**

The state-owned company JSC "Latvenergo" dominates in the electricity supply sector in Latvia, controlling around 90% of the installed capacity for the generation of electricity in Latvia.

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<sup>3</sup> [https://ec.europa.eu/info/files/roadmap-regional-gas-market-integration\\_en](https://ec.europa.eu/info/files/roadmap-regional-gas-market-integration_en)

The functions of the public trader are carried out by "Energijas publiskais tirgotājs" Ltd – the subsidiary of the JSC "Latvenergo". In accordance with the Electricity Market Law, the public trader has the obligation to buy electricity from cogeneration power plants, renewable power plants and pay a guaranteed fee for the installed capacity to plants that have obtained the right to sell the produced electricity within the mandatory procurement.

From 2012, when implementing the unbundling of TSO, the functions of the electricity TSO were carried out by the independent system operator JSC "Augstsprieguma tīkls". JSC "Augstsprieguma tīkls" rented the network assets from JSC "Latvijas elektriskie tīkli" – the subsidiary company of JSC "Latvenergo" which was established as the transmission system owner and the Regulator has verified that JSC "Latvijas elektriskie tīkli" has an adequate level of necessary independence from the JSC "Latvenergo". JSC "Augstsprieguma tīkls" was certified as an independent transmission system operator. Nevertheless, at the end of 2019, Cabinet of Ministers decided to move towards the model of full ownership unbundling, which finished by the end of 2020. The merger of two companies has been implemented by adding the transmission asset owner JSC "Latvijas elektriskie tīkli" to JSC "Augstsprieguma tīkls" on 25 November 2020. As part of the reorganisation, JSC "Augstsprieguma tīkls" took over all assets and liabilities of JSC "Latvijas elektriskie tīkli". After the reorganisation, in accordance with Commercial Law, JSC "Latvijas elektriskie tīkli" transferred all its property, rights and obligations to JSC "Augstsprieguma tīkls".

JSC "Augstsprieguma tīkls" has to submit a report annually regarding the compliance of the transmission system operator with the certification requirements in previous year. After the receipt of the report, the Regulator took a decision on 21 October 2021 stating that JSC "Augstsprieguma tīkls" complies with the certification requirements.

On 14 October 2021, the Regulator approved the national ten-year transmission system development plan (national TYNDP) for 2022 – 2031. In the decision, the Regulator also stated that the national TYNDP complies with the Community-wide TYNDP.

The dominant electricity Distribution System Operator (hereinafter – DSO) JSC "Sadales tīkls" launched its operations as a separate entity within the holding company JSC "Latvenergo" on 1 July 2007. JSC "Sadales tīkls" is unbundled from the vertically integrated undertaking's production and supply affiliates. On 1 October 2011, JSC "Latvenergo" invested all distribution network assets previously owned by JSC "Latvenergo" in JSC "Sadales tīkls".

Regarding the setting of rules on the compilation of unbundled accounts, the Regulator approves cost allocation methodologies and implements the right to request a compliance audit that is conducted by an independent auditor.

The Regulator must confirm annually that the biggest electricity DSO JSC "Sadales tīkls" has fulfilled the necessary conditions to ensure the independence requirements for the DSO in accordance with the regulations on the requirements for ensuring the independence of the DSO.

On 3 June 2021, the Regulator approved that JSC "Sadales tīkls" fulfils the requirements of the independence of an electricity DSO – it is a separate company and is unbundled from the activities of production, transmission and trade of electricity, thus confirming that board members of the electricity DSO are not engaged in the structures of the vertically integrated electricity undertaking JSC "Latvenergo" and have the right to take decisions independently from JSC "Latvenergo" regarding the distribution system assets. The DSO ensures equal access to the electricity distribution system. As mentioned above, the legislator has provided for sanctions which the Regulator can impose against companies which fail to comply with management, account unbundling or other requirements.

### **1.1.2. Technical functioning**

#### **1.1.2.1. Balancing**

The Electricity Market Law sets out guidelines in terms of how the balancing arrangements among customers, producers and system operators should be provided. Customers and producers that are market participants, along with distribution networks, will have to conclude a balancing service agreement with the system operators of the network that they are connected to.

The TSO is responsible for the operational reliability of the power system. For this purpose, the TSO has an open supply agreement and maintains operating reserves. Furthermore, those customers, large electricity producers and distribution networks which are directly connected to the transmission grid obtain balancing services directly from the TSO after concluding the relevant agreement. The concept of a balancing group has also been set out in law. The idea is that customers have the right to delegate a supplier to settle imbalances with the system operator. In such a case, the supplier concludes a balancing service agreement with the system operator, and it may carry out the netting of imbalances among customers and producers.

The balancing model at the distribution level does not differ from the one at the transmission level. Customers and producers directly connected to the distribution grid have to buy the balancing service from the respective DSO, or they may delegate this task to their supplier. The trader's price for end users may also include the balance energy costs, if the trader has an agreement on balancing the end user.

According to the Electricity Market Law, administration of imbalance settlements is the responsibility of the TSO.

In accordance with Electricity Market Law the national Network Code in the Electricity Sector<sup>4</sup> includes procedures for the system management and utilisation, the activities of market

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<sup>4</sup> <https://likumi.lv/doc.php?id=257943> (available in Latvian only)

participants, except final customers. In accordance with the Network Code in the Electricity Sector, the system operators shall perform calculations of balancing openly and without discrimination with respect to all recipients of a balancing service. The customers and producers, who are market participants, and DSOs, have the duty to pay for the balancing service the scope of which is determined based on the data of the transmission and distribution operators. The TSO shall ensure the compliance with the procedures specified in the national Network Code in the Electricity Sector.

The Network Code in the Electricity Sector determines the TSO's obligation to carry out balancing within the coordinated balancing area in cooperation with other TSOs in the coordinated balancing area in accordance with the concluded cooperation agreements. It also lays down the settlement of imbalance for the coordinated balancing area. The imbalance settlement is provided on an hourly basis.

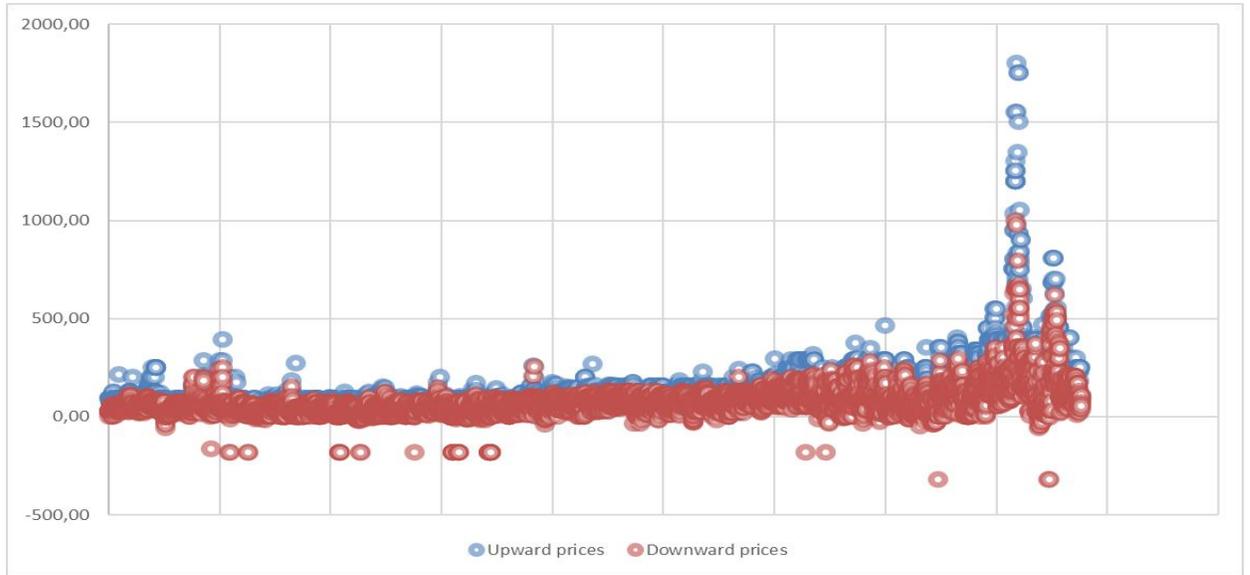
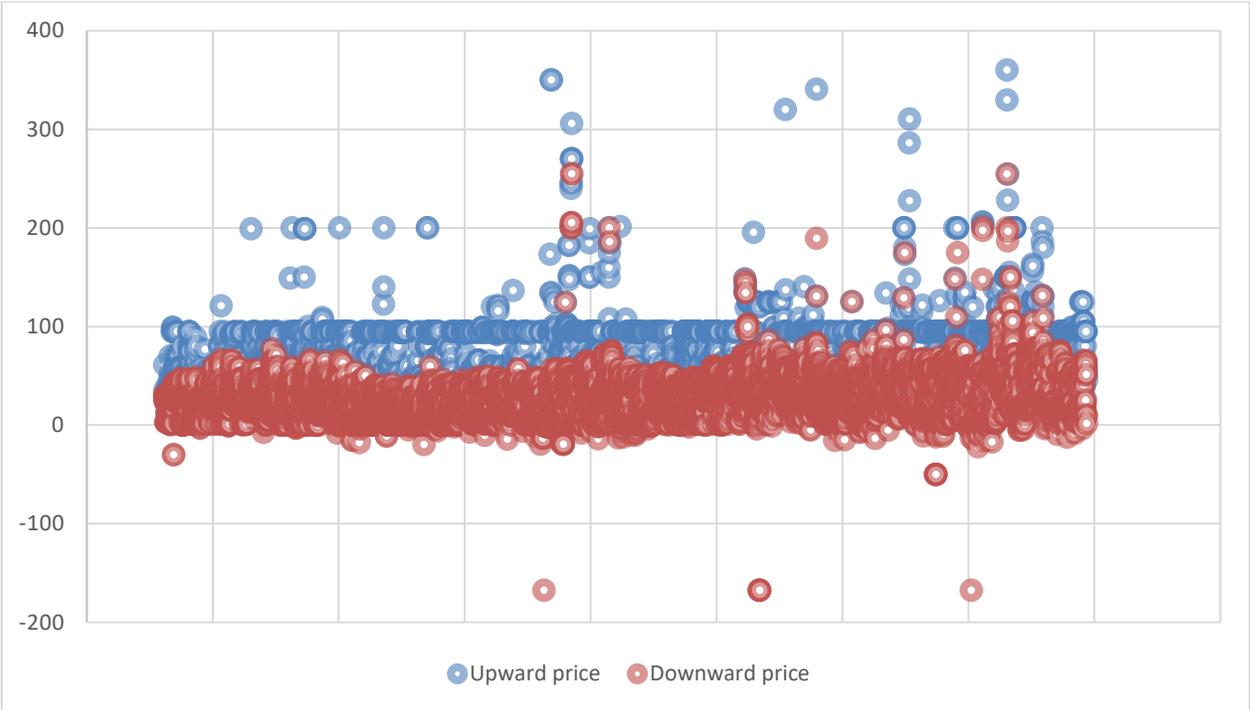
The common Baltic States balancing market started operating on 1 January 2018. Fulfilling the requirements of the Network Code in the Electricity Sector, the Latvian TSO in cooperation with other Baltic States TSOs – Elering AS and Litgrid AB developed harmonized Baltic States balancing market rules for balance service providers and imbalance settlement for balance responsible parties, thus complying with the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing and facilitating equal opportunities to all Baltic States balancing market participants. The Baltic States balancing market rules determine the terms and conditions that are applicable for balance responsible parties in order to participate in the Baltic States balancing market and provide balancing energy upon the connecting TSO's request and that are binding for each connecting TSO in order to ensure the participation of balance responsible parties in the Baltic States balancing market.

The Baltic States imbalance settlement rules describe the imbalance settlement mechanisms between the TSO and balance responsible party including the calculation of imbalances and imbalance prices. The joint approach to the imbalance responsibility is as follows:

- the total imbalance of each Baltic State is the responsibility of the respective TSO;
- the imbalance part in the Estonian, Latvian and Lithuanian electric power systems that can be eliminated (compensated for) within the total Baltic imbalance region is referred to as the netted imbalance. The Baltic States TSOs mutually buy and sell the netted imbalance for the applicable imbalance price;
- the imbalance part that cannot be eliminated (compensated for) within the total Baltic imbalance region is referred to as the non-netted imbalance. The Baltic States TSOs jointly buy and sell the non-netted imbalance to the open balancing service providers at a predetermined price.

The TSO publishes balance energy purchase and selling prices on an hourly basis and customer costs for balancing energy are calculated in accordance with balance energy calculation methodology published on the TSO web page.

Generally, the upward balancing price (on average 112.47 EUR/MWh) in Latvia is higher than the downward balancing price (on average 71.09 EUR/MWh).



The balancing prices during year 2021 (EUR/MWh)

If considering the trend, the average balancing prices, compared to year 2020 have more than doubled. Furthermore, the prices are higher in the second part of year. The increase is caused by increase in other electricity markets (e.g. day-ahead) as well as with broader energy price increase (e.g. natural gas used for electricity production).

On 7 October 2021, complying with the provisions of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (Article 20 and 62), the Regulator decided to grant to Latvian electricity TSO a derogation from the obligation to use a European platform for the exchange of balancing energy from frequency recovery reserves with manual activation (MARI platform). Starting the use of the MARI platform before it is done by the Nordic transmission system operators would significantly reduce the liquidity of Baltic and Nordic balancing market cooperation in balancing energy exchange, since the exchange of balancing energy between transmission system operators using the MARI platform and transmission system operators that do not use it would only take place in emergency situations. Until the Nordic transmission system operators start using the MARI platform, the balancing energy exchange between Baltic and Nordic transmission system operators will be carried out in accordance with bilateral agreements, without affecting the cooperation already established with the Nordic balancing market. Accordingly, the JSC "Augstsprieguma tīkls" should start using the MARI platform before it has been launched by the Nordic transmission system operators. Derogation is granted until the transmission system operators of the Nordic countries (Sweden, Finland, Denmark, Norway) start using MARI platform, but not later than 24 July 2024.

#### **1.1.2.2. Quality of service and supply**

Quality requirements are defined in the Rules on Public Power Supply Network Voltage Requirements adopted by the Cabinet of Ministers<sup>5</sup>. Rules prescribe the mandatory applicable standard that applies to the public power supply network voltage, which is the European Standard EN50160. Standard EN50160 defines, describes and specifies the main characteristics of the voltage at a network user's supply terminals in public low voltage, medium and high voltage alternating current electricity networks under normal operating conditions. In 2021, the average amount of time needed for repairs in the distribution network for the final customers (including all events) was 58 minutes per one interruption. There were 7 interruptions in the transmission network with an average duration of 0.26 hours. Planned system average interruptions duration (SAIDI) in the distribution network for 2021 was 102 minutes, unplanned (including all events) – 106 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2021 was 0.52, unplanned (including all events) – 1.81.

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<sup>5</sup> <https://likumi.lv/doc.php?id=237330> (available in Latvian only)

The operations of public service providers are regularly inspected on the basis of the Regulator's decisions. In 2021, 57 objects of electricity supply companies were inspected in order to examine their operations and compliance with license requirements or general authorization conditions. The objects of the companies were inspected according to the schedule and taking into regard the necessity to ascertain the operation of the companies in accordance with legislation. In addition, the Regulator carried out electricity supply quality measurements in 40 objects according to the European Standard EN 50160 requirements. Some inspections were also conducted at facilities following the complaints that had been received.

### **1.1.3. Network tariffs for connection and access**

The Regulator approves electricity transmission and distribution tariffs. Within the framework of the tariff assessment process of the electricity transmission system service, the Regulator has an obligation to assess the justification of the costs of the electricity TSO, thus balancing the interests of public service users and service providers and protecting the interests of the electricity TSO in matters related to the provision of the relevant services.

In June 2020, the tariff calculation methodology for electricity transmission system services have been amended, introducing regulatory revenue cap and stating that also electricity producers should pay for transmission system services.

On 31 August 2020 electricity TSO JSC "Augstsprieguma tīkls" submitted to the Regulator a proposal for new electricity transmission tariffs for two-year period. On 26 November 2020, the Regulator approved electricity transmission system tariffs with two year tariff period, applicable from 1 January 2021. The new tariff reduces the transmission fee per kilowatt hour by an average of 43%, while, depending on the type of connection of the customer, the fee for maintenance of the connection capacity increases by an average of 27%.

In October 2019, the tariff calculation methodology for electricity distribution system services have been amended, introducing regulatory revenue cap and stating that also electricity producers should pay for distribution system services.

In November 2019, the electricity DSO tariffs were set for the largest electricity DSO – JSC "Sadales tīkls", applicable from 1 January 2020, also new tariffs which will enter into force in 2021, have been set for electricity producers. A five-year regulatory period has been introduced with a respective revenue cap and yearly efficiency factor of 2.57% for total costs. The tariffs were reduced for all consumers in comparison with previously set tariffs. The electricity distribution charge, depending on the consumer tariff plan and voltage level, was reduced from 7% to 20%, while the connection capacity charge remained the same for all consumers. While setting the new electricity distribution tariffs for JSC "Sadales tīkls" the Regulator also assigned JSC "Sadales tīkls" to reevaluate their regulatory asset base until 1 October 2020.

Regulator received the JSC "Sadales tīkls" application for an extension of the regulatory asset base revaluation until 31 March 2021 due to pandemic situation. Based on system operator request regulator extended imposed revaluation process till requested date.

On 21 October 2021 the Regulator approved JSC "Sadales tīkls" the completion of the asset revaluation task.

The tariffs of the electricity distribution system services are structured so that the incentive to decrease the connection capacities as a result of evaluation of requested power capacity if not all the capacity is being used efficiently is in place. That incentivises not only the electricity users to choose more appropriate capacities and avoid overpaying for inefficiently burdened infrastructure, but also positively impacts the distribution system allowing the distribution system operator to reassess and reduce the investment needed for distribution system development. Over the four-year period after the tariff structure was changed, more than 20,000 consumers reviewed capacities, which has resulted into an overall capacity reduction of more than 11%. Therefore, the system has become more efficient and released capacities might be allocated to new customers.

In 2019, changes were made to the weighted average cost of capital (hereinafter – WACC) calculation methodology, which envisaged application of real pre-tax WACC in several regulated sectors, including electricity and gas sectors. The main reason for introduction of real WACC was that the WACC calculation methodology is applied to different regulated sectors that have differing approaches to revaluation of regulated assets, thus there was a need to create equal conditions for sectors where companies mainly use historic cost for regulated assets and sectors where companies perform asset revaluation regularly.

On 20 August 2020, the Regulator approved the WACC for the electricity distribution system operators and the TSO. For year 2021, the real WACC for micro and small electricity DSOs is 4.37% and for medium and large DSOs and the TSO the WACC is 2.65%. The approved WACC relates to the electricity TSO – JSC "Augstsprieguma tīkls" and the authorised DSOs. When evaluating the TSO and DSOs tariffs, the Regulator, by checking the justification of the costs, may propose a review of tariffs in response to changes in factors which influence tariffs, including profitability.

According to the Eurostat, electricity prices in the second half of 2021 in Latvia were about 20% lower for household users and 7% lower for non-household users compared to the EU average price.

In order to guarantee the security of the system in the interconnected electricity transmission system and to take into account the expected significant changes in the operation of the electricity system related to the planned synchronization with the continental European electricity system, in 2020, the Regulator adopted decisions determining that the requirements of the EU regulations on demand connection and grid connection of generators are applicable after their modernization

to three substations of JSC "Sadales tīkls", as well as to power-generating modules of JSC "Latvenergo" Kegums hydro power plant, Riga CHP-1 and Pļaviņas hydro power plant.

As the application of certain EU regulatory requirements for grid connection of generators requires large investments that exceed the socio-economic benefits from their implementation, the Regulator instructed JSC "Augstsprieguma tīkls" to perform a quantitative cost-benefit analysis to find out which requirements are economically justified and which electricity generation modules should be exempted.

#### **1.1.4. Cross-border issues**

##### **1.1.4.1. Implementation of EU Network Codes**

In 2021, the Regulator continued the work on the implementation of EU Network Codes requirements.

On 2 December 2021 complying with the provisions of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (Article 52), the Regulator decided to amend "Network Code in the Electricity Sector" with aim to specify imbalance settlement.

The type of long-term transmission rights (hereinafter – LTTRs) offered in the Baltic CCR are financial transmission rights – options in the direction from Estonia to Latvia and the form of product is base load with fixed amount of MW. The regional design of LTTRs does not apply to bidding zone borders for which the NRAs have adopted coordinated decisions not to issue LTTRs, therefore the regional design is covered by Estonia and Latvia bidding zone border.

In accordance with Article 30(8) of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation, the task on the assessment (at least every four years) of respective bidding zone hedging instruments and implementation of transmission rights is delegated to the national NRAs. Regulator acknowledged that such electricity trading risk hedging instruments are available in a bidding zone of Latvia: NASDAQ Electricity derivatives and LTTRs on the Estonian-Latvian border (direction to Latvia as a Financial Transmission Rights-option). On June 3, 2021, the Regulator in cooperation with Baltic and Nordic NRAs adopted coordinated decision not to issue new LTTRs in the bidding zone of Latvia.

Power exchange "Nord Pool AS" (hereinafter – NP) ensures allocation of the capacity for the market participants on the basis of information provided by the Baltic States TSOs and according to the Rules. NP ensures implicit auctions between the Baltic States. As stipulated in Article 37<sup>3</sup> of the Electricity Market Law, the transactions of market participants, which exceed borders of one bidding area and include the physical transmission of electricity, must only be performed in the power exchange.

The Net Transfer Capacity (NTC) between the Estonian and Latvian systems will continue to be distributed for allocation. At the same time, FTR (300 MW on annual, 49-100 MW on quarterly and 149-151 MW on a monthly basis) is sold at an auction with the obligation to sell them back to the TSOs. For the repurchased capacity, the TSOs will pay to the holders of FTR a fee equivalent to the price difference of the NP Estonian and Latvian price zone in the corresponding period. The FTR auctions from the year 2019 are organized by Joint Allocation Office (hereinafter – JAO). On 1 October 2018, JAO became the Single Allocation Platform (SAP) for all European TSOs that operate in accordance with EU legislation, since it is able to implement and fulfill all regulatory obligations and requirements. The auctions in the SAP doubled the number of the participants and increased competition for volume offered by TSOs.

The total amount of Latvia's interconnection capacity in 2021 was 2,113 MW for export and 1,684 MW for import. In 2021, the total amount of incoming energy was 1,629 GWh, outgoing energy was 3,493 GWh, and the amount of transit was 2,982 GWh.

On 16 December 2021 Regulator approved the Baltic TSOs' proposal for the establishment of the Baltic Regional Coordination Centre according to Article 35(1) of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity. The proposal stipulates that the seat of the Baltic Regional Coordination Center is Tallinn, Estonia. The highest governing body of the Baltic Regional Coordination Center is the shareholders' meeting. The shareholders of the Baltic Regional Coordination Center are Elering AS, JSC "Augstsprieguma tīkls" AS and Litgrid AB.

In 2020, following a request of the European Commission, ACER launched a consultation on reasoned amendments to the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM 2.0). ACER, NRAs, TSOs, NEMOs, and other stakeholders were involved in the consultation process. The Regulator contributed to the CACM 2.0 development process working in the relevant work group as well as giving its opinion in the answers to surveys questions. On 8 August 2021 Regulator submitted reply on NRA survey on consulted amendments for CACM 2.0 and the survey aimed to gather views, feedback and input from all NRAs on proposed reasoned amendments for the ACER recommendation to the European Commission for the amendments.

On 7 September 2021 Regulator submitted to ACER report of JSC "Augstsprieguma tīkls" on redispatching in accordance with Article 13(4) of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market in electricity 2020. Evaluating the report, the Regulator concluded that it had no recommendations for improvement. Therefore, in accordance with Article 13 (4) of the mentioned of Regulation, the Regulator published the report on its website without recommendations.

#### **1.1.4.2. Investment plans and projects of common interest**

Taking into account the investment requests for cross-border cost allocation for the projects of common interest included in the project cluster No.4.8 "Integration and synchronisation of the Baltic States' electricity system with the European networks" (hereinafter – Project cluster 4.8) from the project promoters – Baltic TSOs (Elering AS, JSC "Augstsprieguma tīkls" and Litgrid AB), on 6 September 2018, the Regulator took a decision on phase 1 regarding the allocation of the investment costs for the Project cluster No.4.8 and on 7 May 2020 took decision on phase 2 pursuant to the Regulation (EU) 347/2013 of the European Parliament and of the Council of 17 April 2013 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 (hereinafter – Regulation 347/2013). The implementation of the Project cluster 4.8 is an important prerequisite for maintaining reliable and stable operation of the electric power systems of the Baltic States after they begin working synchronously with Continental Europe, which is planned for 2025. Furthermore, the implementation of the Project cluster 4.8 will improve the reliability of electric power supply of the entire Baltic region, ensuring effective operation of the electric power market both in the Baltics and the Nordic countries. It will also strengthen the electric power system of the Baltic States and its connections to the electric networks of the Nordic countries and Continental Europe, serving as a reliable and stable alternative route for importing or exporting electric power from the Nordic countries to Europe.

All the following projects of common interest are included in the national TYNDP and Community wide TYNDP.

Pursuant to Regulation 347/2013, the commissioned Projects of Common Interest No.4.2.1 "Interconnection between Kilingi – Nõmme (EE) and Riga CHP 2 substation (LV)" (hereinafter – Project 4.2.1) and the Project 4.2.2 "Internal Line between Harku and Sindi (EE)" (hereinafter – Project 4.2.2), the Project 4.2.3 "Internal line between Riga CHP 2 and Riga HPP (LV)" (hereinafter – Project 4.2.3) (hereinafter altogether referred to as Projects 4.2) and the ongoing Project No.4.8.1 "Interconnection between Tartu (EE) and Valmiera (LV)" (hereinafter – Project 4.8.1), the Project 4.8.3 "Interconnection between Tsirguliina (EE) and Valmiera (LV)" (hereinafter – Project 4.8.3) and the Project 4.8.9 "Further infrastructure aspects related to the implementation of the synchronisation of the Baltic States' system with the continental European network" (hereinafter – Project 4.8.9), are part of the priority electricity corridor of the Baltic Energy Market Interconnection Plan in electricity, specified in Annex I.4 of Regulation 347/2013: interconnections between Member States in the Baltic region and reinforcing internal grid infrastructures accordingly, to end isolation of the Baltic States and to foster market integration inter alia by working towards the integration of renewable energy in the region. The Project of Common Interest No.4.4.1 "Internal Line between Ventspils, Tume and Imanta (LV)" was commissioned at the end of 2019 and now it is possible to install more offshore and onshore wind power plants in the Latvian region with the most favourable wind flows for wind generators.

Pursuant to Article 3(4) of Regulation 347/2013, the European Commission adopted the Commission Delegated Regulation (EU) 2022/564 of 19 November 2021 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council as regards the Union list of projects of common interest (hereinafter – EC Regulation 2022/564). The European Commission approved the fifth list of projects of common interests including the Project 4.8.1 and Project 4.8.3. The inclusion of the Project 4.8.1 and Project 4.8.3 and Project 4.8.9 in the fifth projects of common interest list demonstrates their compliance with the projects of common interest criteria set out in Article 4 of Regulation 347/2013.

Pursuant to Article 16 of Regulation (EC) 714/2009 (date of end of validity: 31 December 2020), accrued revenues resulting from congestion management were invested to increase the capacity of the Latvian – Estonian interconnection, namely, to implement the Project 4.2.1 and Project 4.2.3, and for reconstruction of the interconnections between Tartu (EE) and Valmiera (LV), Tsirguliina (EE) and Valmiera (LV) in territory of Latvia (Project cluster 4.8).

Under the 2017 Connecting Europe Facility (hereinafter – CEF) call, Project cluster 4.8 received maximum EU financial assistance for Environmental Impact Assessment and Right-of-way studies of Projects 4.8.1 and 4.8.3 in the territory of Latvia (EUR 125,000) and for Study on Dynamic behaviour of synchronously interconnected Baltic States and Continental European electricity network in the amount of EUR 125,001 (Project cluster 4.8). On January 23, 2019, the Project 4.8.1, Project 4.8.3 and Project 4.8.9 received the maximum EU financial assistance in the amount of 75% (57.75 million EUR for the territory of Latvia).

On 28 May 2020, the Regulator approved Regulation regarding the electricity distribution system development plan and the ten years development plan first time shall be submitted to the Regulator till 1 April 2021.

On 28 October 2020, JSC "Sadales tīkls" submitted a request to the Regulator for the reconciliation of the goals of the development of the electricity distribution system. On 25 February 2021, the Regulator reconciled the goals of the development of the electricity distribution system.

On 30 March 2021, JSC "Sadales tīkls" submitted a request to the Regulator for the approval of the ten years distribution system development plan 2022 – 2031.

On 23 April 2021, the Regulator held a public hearing about submitted the ten years distribution system development plan.

On 23 September 2021, the Regulator approved ten years distribution system development plan 2022 – 2031 which foresees purposeful investments to continue reconstructing and modernising the distribution system according to the industry development trends and the demands of the public. It is planned to facilitate the use of innovative technical solutions in the renovation of the network and carry out work on the development of a smarter electrical network.

## 1.2. Promoting competition

The electricity market was opened on 1 July 2007, when all customers became eligible to choose a supplier of electricity. There are several companies in Latvia which sell electricity to market participants. In 2021, five largest electricity traders in the whole retail market by volume were JSC "Latvenergo", JSC "Enefit", JSC "Ignitis Latvija", JSC "Tet" and JSC "AJ Power".

	2020	2021
Herfindahl-Hirschman Index:	high	high
Households	6 887	6 280
Legal entities	3 350	2 838
Registered suppliers	41	44
Contracts, households:	921 695	924 766
Fixed price	787 594 (85%)	759 160 (82%)
Variable spot price	134 101 (15%)	165 606 (18%)
Contracts, legal entities:	35 642	41 247
Fixed price	19 854 (56%)	19 374 (47%)
Variable spot price	15 788 (44%)	21 873 (53%)

There is still high domination of the former incumbent in the market, nevertheless the market becomes more active both by suppliers and consumers, which is reflected by the decreasing Herfindahl-Hirschman Index and the growing share of variable spot price-based contracts.

JSC "Latvenergo" owns the biggest electricity DSO – JSC "Sadales tīkls". In addition, there are 9 local distribution companies, serving less than 100,000 electricity customers.

### 1.2.1. Description of the wholesale market

In 2021, 44 companies were registered as traders of electricity and 27 of them actively operated as intermediaries in the supply of electricity customers. Electricity generation in Latvia is dominated by JSC "Latvenergo" providing approximately 78% of the total produced electricity in Latvia. The other electricity producers are too small to offer significant volumes of energy for potential customers.

In 2021, the total annual consumption, including losses and self-consumption was 7,382 GWh and the amount of installed available generation capacity was 2,943 MW. Latvia produced 5,817 GWh of electricity, imported 4,667 GWh from the Nordic countries, and exported 2,893 GWh. 142 small hydroelectric power plants that generate electricity operate in Latvia. They have a total capacity of 28 MW. There are five hydroelectric power plants with a capacity of more than 1 MW for each and with a total capacity of 1,56 GW. 20 wind power plants with a total capacity of 65 MW, 67 co-generation stations with a total installed capacity of 1,27 GW (including natural gas, biomass and biogas power plants) operate in Latvia.

JSC "Latvenergo" is the only company in Latvia that has a share of more than 5% of the installed capacity.

In 2021, 7,512 GWh of electricity were bought and 8,402 GWh were sold in the NP's Elspot market. The average spot price of electricity increased sharply from 34.05 EUR/MWh in 2020 to 88.78 EUR/MWh in 2021 (+161% or 2.6 times). In December 2021, spot price of electricity reached a peak of 207,40 EUR/MWh. Rise in consumption due to colder weather conditions and economic recovery from COVID-19 pandemic in combination with high gas and carbon prices, changing renewable generation possibilities in Baltic and Scandinavian regions were the main reasons for the increase in prices in 2021.

There were no major acquisitions or mergers in the electricity sector in Latvia in 2021.

### **1.2.2. Description of the retail market**

In 2021, electricity supply companies supplied 6,777 GWh to their customers (Regulator's data). Most of household customers consume a comparatively small volume of electricity (about 150 kWh per month).

At the end of the reporting year, there were 69 companies registered in the electricity producers' register – 72 for co-generation plants, 19 for wind power plants, and two for hydroelectric power plants. In 2021, the Regulator registered 12 new electricity traders. At the end of the reporting year, 44 companies were registered in the electricity traders' register and 10 licenses were issued for the distribution of electricity and one license for the transmission of electricity.

The Latvian electricity consumption structure in 2021 was as follows:

- households – 26%;
- non-household users – 74%.

In 2021, 100% of total electricity was traded in the electricity market at contract prices in accordance with bilateral agreements. During the year, 5.37% of all households and 22.28% of all non-household users changed electricity trader. Serving customers and billing is traders' responsibility, therefore internal policies for setting a market offer are taken into consideration.

However, the regulation states that a universal offer must be included in the product portfolio for all traders willing to supply households. A universal offer is defined as one which comes with a fixed electricity price for a period of 12 months and does not contain any restrictions on early termination of the contract (no penalty for customer). Nevertheless, products with a fixed price for different time periods and products with a variable power exchange price are offered in the market.

### **1.3. Security of supply**

The total electricity consumption including losses and self-consumption in 2021 amounted to 7,382 GWh. Peak load in 2021 was 1,251 MW. Forecasts for the peak loads in years 2021 - 2022 are as follows:

- 2022 – 1,223 MW;
- 2023 – 1,236 MW.

The currently available generation capacity amounts to 3,099 MW.

Each year, the TSO shall prepare an annual evaluation report and shall assess the security of supply of electricity and the production capacity for a 10-year period.

There are 10 DSOs, and their license conditions state that they must supply all customers with electricity and connect new customers in their licensed zones of operations. JSC "Sadales tīkls" was the biggest DSO in Latvia in 2021 covering around 99% of the whole territory of Latvia.

The total capacity of the transmission network is currently 9,231 MVA, which is almost eight times more than the peak load in 2021. This ensures a continuous supply of electricity.

## **V The natural gas market**

Facilitating free movement of natural gas within the region and preventing discrimination of supply routes, lowering barriers for new market entrants, promoting more competition and ensuring higher market liquidity as well as ensuring better utilization of the existing infrastructure – these are the main objective for the FinEstLat system development.

FinEstLat system became operational on 1 January 2020, and it has one entry tariffs zone.

Considering the different level of natural gas market maturity in the countries of FinEstLat system and following the stepwise integration approach, during the transition period two balancing areas were set up within the FinEstLat system – the common Estonian-Latvian balancing zone and the Finnish balancing zone.

For the implementation of the common balancing zone, TSOs of Estonia and Latvia prepared and the Regulator (Regulator's decision No 164 and No 165 of 28 October 2019) and Estonian NRA

approved “Common regulations for the use of natural gas transmission system” and “Common regulations for the natural gas balancing of transmission system”, which entered into force on 1 November 2019 with the full application as of 1 January 2020.

Ensuring the technical balancing of the natural gas transmission system in the common Estonian-Latvian balancing zone from 1 January 2020, natural gas PSOs Elering, AS and AS "Conexus Baltic Grid" found regulatory deficiencies which were basically related to the settlement of imbalance and neutrality charges. On 25 November 2021 the Regulator, in coordination with Estonian NRA, approved “Common regulations for the natural gas balancing of transmission system” in new version, eliminating the identified shortcomings.

Following the Roadmap on regional gas market integration between Estonia, Finland, Latvia and Lithuania approved in early 2020 a Memorandum of understanding was signed between the four NRAs to facilitate cooperation, coordination and the creation of the Baltic-Finnish market in October 2020. A Working Group with the four NRAs was also established. According to the Roadmap and based on study on alternative market design for the Baltic-Finnish gas market and analysis on regional gas market integration between Estonia, Finland, Latvia and Lithuania by company Artelys FinBalt TSOs managed to agree on the principles of the ITC mechanism to be applied when Lithuania joins the single natural gas transmission entry-exit system of Finland, Estonia and Latvia and on 15 November 2021 submitted to FinBalt NRAs application for coordinated opinion on FinBalt system entry tariff and ITC mechanism among FinBalt TSOs. On 21 December 2021, the FinBalt NRAs Working Group, after evaluating the application, sent a notification to the FinBalt TSOs, in which it asked TSOs justification and specification on removal of tariffs in Kiemenai interconnection point and its impact on the TSOs’ possibility to recover the revenue at the same amount as before the application of ITC mechanism as well as on the eligible variable costs, applied discounts and other issues. In 2022, FinBalt TSOs and NRAs continued active work on the proposed ITC mechanism for the 4-country natural gas transmission entry-exit system.

## **2.1. Network regulation**

### **2.1.1. Unbundling**

Natural gas market was opened on 3 April 2017. The legislator considered that the most effective solution was the full ownership unbundling of the single natural gas transmission and storage system operator from the energy production, distribution, and trading activities.

The unbundling of the single natural gas transmission and storage system operator JSC “Conexus Baltic Grid” was completed by 31 December 2017. As regards the system operators’ status, it is important to mention that the ownership unbundling of the single natural gas transmission and storage system operator is deemed complete when this operator fulfils all the certification requirements specified in the Energy Law. An operator must be certified before it is approved and

designated as a transmission system operator. The Regulator took a decision in September 2018 stating that JSC "Conexus Baltic Grid" is certified with conditions according to which it should be ensured starting from 1 January 2020 that party which controls the energy supplier is not capable to control JSC "Conexus Baltic Grid" directly or indirectly, and that direct or indirect activities of financial institutions and the merchants established for specific purpose represented in JSC "Conexus Baltic Grid" do not cause any conflict of interest between JSC "Conexus Baltic Grid" and the merchant which is engaged in the production and trade of electricity or natural gas. Furthermore, the Regulator imposed a legal obligation stipulating that the Regulator must be informed on the progress of execution once in two months.

In addition, the decision taken by the Regulator was challenged in court by JSC "Conexus Baltic Grid". Nevertheless, in September 2019 the Administrative regional court rejected the JSC "Conexus Baltic Grid" application and came to conclusion that the Regulator's decision was legal and binding. JSC "Conexus Baltic Grid" submitted a cassation complaint about the Administrative regional court's judgement though, and the case is still pending. Furthermore, JSC "Conexus Baltic Grid" submitted a request to extend the fulfillment of the certification conditions in the end of 2019, but the request was rejected by the Regulator in the beginning of 2020.

In the process of annual evaluation, the Regulator took a decision on 1 July 2021 stating that JSC "Conexus Baltic Grid" complies with the certification requirements – the Regulator decides to acknowledge that JSC "Conexus Baltic Grid" complies with the independence requirements of the unified natural gas transmission and storage system operator specified in the Energy Law.

According to the legal regulation of the Energy Law, if a natural gas DSO is vertically integrated in the energy supply company, this operator is a separate corporation with an independent legal personality and separated from the activities of natural gas production, transmission, storage, and LNG service provision and trading, and this in communication and in establishing its brand ensures that its identity is separate from the identity of the trading structure of the vertically integrated natural gas supplier. DSO JSC "Gasol" is the subsidiary of the trading company JSC "Latvijas Gāze". On 29 April 2021, the Regulator approved that JSC "Gasol" fulfils the requirements of the independence of a gas DSO.

## **2.1.2. Technical functioning**

### **2.1.2.1. Balancing**

According to the Energy Law, balancing of the natural gas supply system must be ensured by the natural gas TSO. Network user is responsible for ensuring that all its inputs, off-takes of natural gas and virtual trading point transactions are in balance within gas day. Balancing calculations are made in accordance with the Common Regulations for the Natural Gas Balancing of Transmission System.

Common Regulations for the Natural Gas Balancing of Transmission System sets out the rights and obligations and the information exchange procedure between the natural TSOs of Estonia and Latvia and the network user in relation to the terms and procedure for providing information and general data exchange between TSO and the network user regarding their balance status, the order and procedure for operations in the virtual trading point to trade in gas and to submit trade notifications, allocation of initial and final imbalance quantity by network users, settlement and invoicing of imbalance charges, the terms and procedure governing the operational balancing of the gas transmission networks by the TSO and requirements for the collaterals for the fulfilment of the network user's obligations.

The TSOs can undertake balancing actions to maintain the transmission network within its operational limits and to achieve at the end of gas day linepack position in the transmission network different from the one anticipated on the basis of expected inputs and off-takes for that gas day, consistent with economic and efficient operation of the transmission network. TSO seeks to purchase gas when the total estimated quantity of planned inputs by network users to the transmission system during the gas day is lower than the quantity of planned off-takes from the transmission system and to sell gas when the total estimated quantity of planned inputs by network users to the transmission system during the gas day is higher than the quantity of planned off-takes from the transmission system, also taking into account the flexibility of the transmission systems in the Estonian-Latvian common balancing zone.

The trading platform – UAB "GET Baltic" gas exchange – is the first gas source of TSOs balancing actions. Yet, until the trading platform liquidity is sufficient, the TSOs can also rely on balancing service providers. TSOs of the Estonian-Latvian common balancing zone must agree between themselves on use of trading platforms and the balancing services. Standardized short-term (day-ahead or within-day) products with delivery to the virtual trading point are selected as priority for balancing operations, buying or selling them on the UAB GET Baltic trading platform.

Latvian TSO JSC "Conexus Baltic Grid", acting as the settlement and balancing coordinator of the Estonian–Latvian common balancing zone, performed a total of 666 balancing operations (383 balancing activities were performed to eliminate positive imbalances and 283 balancing activities – to eliminate negative imbalances). In 2021 94% of all balancing transactions were performed on the trading platform, while offers submitted by transmission system balancing service providers were used in 6% of cases. Compared to the previous year, in 2021, proportion of the balancing transactions performed on the trading platform grew by six percentage points. The TSO registers and publishes information regarding capacity available, nominations and allocations, capacity used, all network users' imbalance position, balancing actions (gas source, number of trades, quantity of natural gas traded, total) balancing sell and buy prices of gas day D, daily neutrality charge for the previous month.

The network user enters into balancing agreement with any of the Estonian-Latvian common balancing zone TSOs and transmission service agreement with TSO, with whom the balancing

agreement has been concluded. In case of conclusion of the balancing agreement the network user has an obligation to present appropriate collateral for the fulfilment of the network user's obligations under the balancing agreement.

Any transaction at the virtual trading point or interconnection point is registered by TSO in the balancing portfolios of the network users. The network users have an obligation to settle accounts for imbalance.

All daily imbalance charges are subject to a financial clearing to the financial account of the TSO. The imbalance charges accumulated to the financial account of the TSO is cleared to or by the network user on a monthly basis. For each gas day D, the TSO determines the daily imbalance prices on gas day (D+1). The marginal sell price for gas day D is equal to the lower of:

- the lowest price of any sales of title products in which a TSO was involved at relevant trading platforms in respect of gas day D;
- the weighted average price of all trades in title products at relevant trading platforms in respect of gas day D, multiplied by the marginal sell price incentive factor.

The marginal buy price for gas day D shall be equal to the greater of:

- the highest price of any purchases of title products in which a TSO was involved at relevant trading platforms in respect of gas day D;
- the weighted average price of all trades in title products at relevant trading platforms in respect of gas day D, multiplied by the marginal buy price incentive factor.

The marginal sell price incentive factor may range between a value of 0.9 and 0.95 and the marginal buy price incentive factor may range between a value of 1.05 and 1.1.

By November 2021, the value of incentive factor for the sale marginal price was 0.90, and the value of incentive factor for the purchase marginal price was 1.10, but, after performance analysis of the Estonian–Latvian common balancing zone, it was concluded that changes in the values of incentive factors for the applicable marginal price were necessary. From 1 December 2021, the applicable value of incentive factor for the sale marginal price was set in the amount of 0.95, whereas the applicable value of incentive factor for the purchase marginal price was left unchanged.

According to the neutrality charge calculation methodology, all costs and revenues of the balancing actions are allocated to the neutrality charge and paid by or to the network users. The daily neutrality charge has the same value for each gas day of the previous month. The neutrality charge applied in 2021 ranged from -0.04 EUR/MWh to 0.13 EUR/MWh. The average neutrality charge in 2021 was 0.06 EUR/MWh per month.

### **2.1.2.2. The quality of service and supply**

The operations of public service providers are regularly inspected on the basis of the Regulator's decision. In 2021, 28 facilities of the DSO – JSC "Gasol" and TSO – JSC "Conexus Baltic Grid" were inspected in order to examine the company's operations and compliance with license requirements or general authorisation conditions. The facilities of the JSC "Gasol" and JSC "Conexus Baltic Grid" were inspected according to the schedule and taking into regard the necessity to ascertain the operation of the companies in accordance with legislation.

In 2021, the average amount of time needed for repairs in the distribution network for final customers was 59 minutes per one interruption. The planned system average interruptions duration (SAIDI) in the distribution network for 2021 was 7 minutes, unplanned – 0.11 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2021 was 0.32, unplanned – 0.001930.

### **2.1.3. Network tariffs for connection and access**

The Regulator is responsible for the preparation and approval of calculation methodologies for natural gas transmission, storage, distribution system service tariffs and natural gas price for captive consumers and approval of the corresponding tariffs. According to the Energy Law, captive consumers are households – they have a right to choose to become a market participant or receive gas at a regulated price.

In 2019, the natural gas transmission tariff calculation methodology was amended introduced regulatory revenue cap. In August 2020 the natural gas distribution system tariff calculation methodology was amended.

On 1 September 2020 natural gas distribution system operator JSC "Gasol" submitted to the Regulator a proposal for new natural gas distribution tariffs. On 30 April 2021, the Regulator approved new distribution system tariffs. The new tariffs entered into force on 1 July 2021. The tariff period was set for 54 months, but the Regulator allowed the system operator to calculate new tariff values itself, in accordance with the methodology.

NRAs of FinEstLat system including the Regulator agreed on the following natural gas transmission system service tariff setting principles in FinEstLat system:

- interconnection points within the FinEstLat system are eliminated, including the interconnection point to or from Incukalna underground gas storage facility (hereinafter – UGS) facility;
- Postage Stamp methodology applied separately in each country;
- flat entry tariffs are set across the FinEstLat system through benchmarking and rescaling;

- resulting entry tariffs revenue shared through ITC mechanism according to the proportions of the nationally consumed natural gas volumes;
- exit tariffs are set to recover each TSOs remaining transmission revenue;
- non-transmission revenues are treated nationally.

In 2019, based on the selected tariff model for the FinEstLat system, the Regulator amended the methodology for the calculation of the tariffs on the natural gas transmission system service and approved the transmission tariffs applicable from the 1 January 2020, taking into account all measures specified by the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter – TAR Network Code) – the consultation on the application of the methodology for the calculation of the tariffs on the natural gas transmission system service pursuant to Article 28 and 26 of TAR Network Code was carried out and the decision on the methodology was taken based on the ACER Report – the analysis of the public consultation document for Latvia.

New natural gas transmission system service tariffs were set using the revenue cap regulatory approach for the first time for 33 months regulatory period. The same tariff was set at the FinEstLat system entry points located in Latvia as at the other FinEstLat system entry points, but a discount of 100% was applied for the tariffs for an entry point from the Incukalna UGS and an exit point to the Incukalna UGS.

In September 2021, was determined charge for the use of the exit point for supplying gas users in Latvia. The new tariff was set at 1.9296946 EUR/MWh and entered into force on 1 October 2021.

In October 2020 the natural gas storage system tariff calculation methodology was amended, introducing regulatory revenue cap and the transition of the tariff period from the calendar year to the storage cycle.

Along with the changes in Methodology for Calculation of Natural Gas Storage System Service Tariff, it has been introduced of the regulatory account, the purpose of which is to ensure the opportunity for the system operator to recover (return) the difference between the planned and actually generated revenue, as well as non-controllable costs.

The regulatory account records the differences between the revenue and costs. The balance of the regulatory account is reduced when the balance of the regulatory account is allocated to the revenue correction (relating to the allowed revenue) or to the correction of the planned revenue (relating to the planned revenue).

The revenue correction shall be determined before the submission of the tariff proposal and shall be applied to an equal extent to the tariff periods within one regulatory period.

The revenue correction shall be set so that the balance of the regulatory account at the beginning of the regulatory period is zero. An exception is a situation when the accumulation of the regulatory account surpasses 50% - in such cases it is provided that the Regulator may decide on the use of the accumulation of the regulatory account for other purposes related to the provision of the capacity booking service.

No later than 1 November of each year, natural gas storage system operator shall submit to the Regulator information regarding the balance of the regulatory account.

On 25 November 2020 natural gas storage system operator JSC "Conexus Baltic Grid" submitted to the Regulator a proposal for new natural gas storage tariffs with a regulatory period five year. On 1 March 2021, the Regulator approved new storage system tariffs. The new tariffs entered into force on 1 May 2021. The followings tariffs where set for 2021/2022 storage cycle:

- One-year bundled unit capacity product 1,02260 EUR/MWh;
- Two-year bundled unit capacity product tariff 1,08650 EUR/kWh for one-year period;
- Stock Transfer product tariff 1,77960 EUR/MWh;
- Virtual reverse flow product tariff 0,34710 EUR/MWh.

The Regulator approved the tariff value of the stock transfer product for the 2022/2023 storage cycle. The tariff for the stock transfer product is 1.8081 EUR/MWh/storage cycle other tariffs stay the same as in the 2021/2022 storage cycle.

In 2021, the Regulator continued to make improvements to Incukalns UGS regulatory framework. By the decision No.1/14 of 16 December 2021, the Regulator approved the amendments to "Rules of Use of the Incukalns Underground Gas Storage Facility" clarifying the procedure for organizing capacity auctions and introducing the auction calendar. These regulatory changes improved the awareness of storage users about the process of booking and using storage capacity, allowing users to plan their actions in a timely manner, thereby promoting sustainable storage use of Incukalns UGS.

On 20 August 2020, the Regulator set the WACC for the natural gas transmission, distribution and storage system operator. For year 2021 the real WACC is set 4.37% for micro and small companies and 2.65% for medium and large companies.

#### **2.1.4. Cross border issues**

Taking into account the investment request for cross-border cost allocation for the project of common interest No.8.2.4 "Enhancement of Incukalns Underground Gas Storage" (hereinafter – Project 8.2.4) from the project promoter JSC "Conexus Baltic Grid", on 4 October 2018, the Regulator took a decision regarding the allocation of the investment costs for the Project 8.2.4 pursuant to the Regulation 347/2013, and the project received EU financial assistance. On 30 May 2019, the Regulator took a decision regarding the allocation of the investment costs for the Project of Common Interest No.8.2.1 "Enhancement of Latvia — Lithuania interconnection" (hereinafter –

Project 8.2.1), and the project received the EU financial assistance. Previously, the Project 8.2.1 received EU financial assistance for The Feasibility Study and Cost-Benefit Analysis for the Enhancement of Latvia-Lithuania Interconnection.

Pursuant to Regulation 347/2013, the Project 8.2.1 and Project 8.2.4 are part of the priority gas corridor of the Baltic Energy Market Interconnection Plan in gas, specified in Annex I.8 of Regulation 347/2013: gas infrastructure to end the isolation of the three Baltic States and Finland and their dependency on a single supplier, to reinforce internal grid infrastructures accordingly, and to increase diversification and security of supplies in the Baltic Sea region.

Pursuant to Article 3(4) of Regulation 347/2013, on 19 November 2021, the European Commission adopted the Commission delegated Regulation (EU) 2022/564 of 19 November 2021 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council as regards the Union list of projects of common interest with the fifth list of projects of common interests including the Project 8.2.1 and Project 8.2.4. The inclusion of the mentioned projects in the fifth projects of common interest list demonstrates their compliance with the projects of common interest criteria set out in Article 4 of Regulation 347/2013.

## **2.2. Promoting competition**

### **2.2.1. Description of the wholesale market**

On 3 April 2017, the natural gas market in Latvia was opened. All the natural gas users have the right to freely choose a natural gas trader. In 2021, 30 companies were registered as natural gas traders, of which 20 were active in 2021. In 2021, 12,703 GWh of natural gas were imported by the incumbent JSC "Latvijas Gāze" and other traders.

Latvia's natural gas supply system is part of FinEstLat system, and it is directly connected to the natural gas transmission systems of Lithuania, Estonia, and the Russian Federation, ensuring natural gas transmission both in regional gas pipelines in the territory of Latvia and in interconnections with the natural gas transmission systems of the neighboring countries. In 2021 natural gas transmission system's maximal technical capacity was (GWh/day) as follows:

- Incukalna UGS entry point – 273 GWh/day;
- Incukalna UGS exit point – 126 GWh/day;
- Kiemenai (LV/LT) entry point – 67.6 GWh/day;
- Kiemenai (LV/LT) exit point – 65.1 GWh/day;
- Luhamaa (EE/RU) entry point – 168 GWh/day;
- Luhamaa (EE/RU) exit point – 85 GWh/day.

The cross-border connections with Russia and Lithuania provide the ability to supply natural gas in both directions – to Latvia's natural gas supply system and from it, thereby ensuring the security of supply of natural gas in Latvia.

The task of the gas storage facility is to ensure a constant supply of gas to consumers, regardless of the seasonal changes in its consumption, by injecting natural gas in summer and withdrawing it in winter. The Incukalns UGS is the only functioning underground gas storage facility in the Baltic States. Natural gas from the underground facility is delivered to Latvian consumers, as well as supplied to Estonia, Lithuania, Finland and back to Russia, if needed. The creation of the FinEstLat regional gas market has boosted network users' interest in storage. Estonia–Finland interconnection (Balticconnector) opened at the beginning of 2020, ensured the additional withdrawal of natural gas from the Incukalns UGS for supply to Finnish customers. In 2021, about 13,772 GWh of natural gas was supplied to other countries.

Due to high natural gas wholesale prices in 2021 the filling rate of Incukalns UGS stood at 80% (17.4 TWh) at the end of the injection season.

### **2.2.2. Description of the retail market**

In 2021, 30 companies were registered in the natural gas traders register.

In 2021, the total Latvian natural gas consumption was 12,406 GWh. The Latvian natural gas consumption structure in 2021 was as follows:

- households – 1,624 GWh or 13%;
- non-household users –10,781 GWh or 87%.

In 2021, there were 388,984 natural gas customers. The number of customers has slightly decreased compared to 2020 when there were 393,096 customers due to the switching to other energy resources.

### **2.3. Security of supply**

Security of supply measures are being implemented in accordance with the requirements of Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010 (hereinafter – Regulation No 2017/1938) – the Ministry of Economics of the Republic of Latvia is the competent authority with regards to the mentioned Regulations.

The infrastructure standard N-1 for Latvia is 220.67%.

In 2021, there have been no periods when the natural gas demand was not fully covered. Since the consumption of natural gas in 2021 was 12.5 TWh per annum, due to the capacity of the pipeline system, which is designed for 33.94 – 45.25 TWh annual consumption and the availability of the Incukalns UGS, all the natural gas consumers were supplied without supply interruptions.

Considering the close correlation of the measures for mitigation of natural gas supply risk listed in the risk assessment and those included in the investment program of the natural gas and

storage system operator, the preventive measures mainly are based on the investment program of the mentioned system operators.

On 16 November 2021, amendments to the Cabinet of Ministers' Regulations No 312 "Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State" of 19 April 2011 were adopted. According to the amendments single transmission and storage system operator JSC "Conexus Baltic Grid" shall ensure that every year on March 1, the Inčukalns UGS contains the amount of working gas necessary to ensure the daily withdrawal capacity of the Inčukalns UGS, in order to supply Latvia's energy users with natural gas, including during the energy crisis. The unified natural gas transmission and storage system operator shall reconcile with the Ministry of Economics and the Regulator the model of the fulfillment of the said obligation and the amount of working gas stored in the Inčukalns UGS. In 2021 auction procedure was used, and 2,35 TWh of natural gas was stored to fulfil the said obligation.

The natural gas TSO JSC "Conexus Baltic Grid" also has specific responsibilities for the Cabinet Regulation No 312, the natural gas TSO shall ensure and store a natural gas reserve in the Inčukalns UGS in the amount of the natural gas supply standard determined in accordance with Article 6 of Regulation No 2017/1938. The natural gas security reserve is intended for the supply of natural gas to the protected customers. The natural gas security reserve is continuously stored at Inčukalns UGS and can be used only during the crisis if the relevant decision of the Cabinet of Ministers has been made.

## **VI Consumer protection and dispute settlement in electricity and natural gas**

National legal acts and legal acts of the EU related to the energy sector provide legal basis for the Regulator's competence to oversee the process of market development, ensuring transparent market information and equal rules for all the market participants.

In 2021, 72 complaints of public utilities users were received and reviewed in the energy sector (51 about electricity and 21 about gas). Complaints on electricity supply were related to connection to the grid and supply of electricity (45%), the registration of the amount of electricity consumed and the resultant bills (14%), tariffs (12%), contracts (8%), quality of supply (6%) and other issues (15%). In the natural gas supply sector, most complaints were received about tariffs (24%), issues of the registration of the amount of natural gas consumed and resultant bills (19%), natural gas supply (19%), contracts conditions (14%) and other issues (24%).

### 3.1. Public service issues

The Public Service Obligations are imposed on service providers by law. These are specifically defined in secondary legislation and in license terms. Given that, most provisions are imposed by the legislation.

The Public Service Obligations requirements are defined in several laws, particularly in the Energy Law, the Electricity Market Law and the Law on Regulators of Public Utilities. Additionally, the Regulator has also passed a number of important legislative measures (i.e. adopted amendments) to ensure promotion of best practices in regulated sectors.

In the electricity sector, a DSO has an obligation to connect every customer in the licensed area while complying with the regulations on the connection to the grid, set by the Regulator. According to the above-mentioned regulations, the connection charge (the cost of construction) for the 0.4 kV voltage connections must be shared by the customer and the DSO, where:

- the customer pays 60% and the DSO 40%, if the DSO has less than 100,000 users;
- the customer pays 50% and the DSO 50%, if the DSO has more than 100,000 users.

Other customers and generators are obliged to cover 100% of the connection costs.

Laws have defined several tasks for a public trader, as well as for the Regulator issuing licenses:

- According to the law, all licensed system operators must, in accordance with their licensing terms, ensure safe, continuous and stable delivery of electricity, thermal energy, natural gas or other types of energy and fuel to existing and potential customers, doing so at an economically justified level of quantity and quality and in conformity with environmental protection requirements.
- The system operator has a permanent obligation to ensure for system users and applicants' access to energy transmission or distribution systems or natural gas storage sites if such access is compatible with appropriate technical regulations and safety requirements.

The obligation to purchase electricity that is produced in an effective cogeneration regime or electricity is produced from renewable energy resources is imposed on the public trader of electricity. The Electricity Market Law specifies that producers can obtain the right to sell electricity to the public trader and the public trader has the obligation to buy it, as long as the producer satisfies requirements that have been defined in the Regulations of the Cabinet of Ministers regarding Electricity Production from Renewable Energy Resources and Price Calculation, adopted on 16 March 2010.

On 10 March 2009, the Cabinet of Ministers adopted the Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration, covering particular criteria and requirements which regulate mandatory procurement. These regulations

contain provisions on the operating regime, the security of the supply, the efficiency, and the formula for determining the price of electricity.

The Regulator approves the renewable energy fee and cogeneration fee that should be paid by all the electricity customers proportionally to their consumption. In 2021, the amount of electricity produced from renewable energy resources reached 50% of net production, including hydropower plants with installed capacity more than 5 MW. It is a slight drop from 2018, when the share of the renewable energy was 54%. This decline in the production of the green energy can be explained by different amount of water in the Daugava river and some minor effect also due to the suspension of the support scheme (end of the support term, fraudulent actions in generation, etc.).

In accordance with the Electricity Market Law, on 23 November 2017, the Regulator adopted a new methodology for calculating the mandatory fee (based on the mandatory procurement for power plants that produce electricity from the renewable energy resources and in effective cogeneration regime, in the form of feed-in tariffs or capacity payment) that should be allocated to all consumers. The methodology envisages that part of the costs shall be fixed and linked to the consumers capacity payments and other part shall be proportional to the consumed electricity.

### **3.2. Protection of vulnerable customers**

The Cabinet of Ministers has issued the regulation No 345<sup>6</sup> of 1 June 2021 to provide new version detailed rules about electricity supply and distribution to vulnerable customers. These rules entered into force on 1 September 2021.

From 1 September 2021 electricity supply to vulnerable customers can be provided by any of the active electricity traders. Currently, the service provided by JSC "Latvenergo" and JSC "TET". The electricity price according to the Electricity Market Law is mutually agreed between a trader and a customer. In accordance with the Electricity Market Law vulnerable customers is poor or low-income families (persons), large families or families which care for disabled children or persons with the first disability group. With the new regulations, the application of the discount has been changed and simplified. Pursuant to Electricity Market Law the procedures for financing installation of the connection for a protected user shall be determined by the Cabinet of Ministers.

### **3.3. Labelling the primary energy source**

Producers who conform to criteria may receive guarantees of origin in terms of the produced electricity, in accordance with specified procedures prescribed by the Cabinet of Ministers. An institution authorised by the government issues the guarantee of origin. On 22 November 2011,

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<sup>6</sup> <https://likumi.lv/ta/en/en/id/323662>

the Cabinet of Ministers approved the rules for obtaining guarantees of origin for electricity produced from renewable energy sources. These rules were applicable until 8 June 2016, when the amendments to the Electricity Market Law entered into force. According to these amendments the Cabinet of Ministers approved new regulations on 14 February 2017.

In 2020 the necessary prerequisites for joining Association of Issuing Bodies were met by electricity TSO. Therefore, by the end of 2020, first guarantees of origin according to European Energy Certificate System were issued in electricity. In 2021 the Latvia Domain of Guarantees of Origin were issued guarantees for 2.65 TWh of electricity.

### **3.4. Customer protection issues**

According to the Law on Regulators of Public Utilities, the Regulator is obliged to deal with customer complaints. In simpler cases, where an agreement between the parties involved in the dispute is achievable, the Regulator provides oral or written consultations or delivers an opinion. In more complicated cases, the dispute resolution procedure is applicable.

In 2021, 51 applications were submitted to the Regulator about the actions of the public service provider in the electricity sector. Five complaints were justified and eight were not related to the Regulator's competence. A dispute resolution procedure was initiated in one case, the decision will be adopted in 2022.

In 2021, 21 applications were submitted to the Regulator about the actions of the public service provider in the natural gas sector. One complaint was justified and three were not related to the Regulator's competence. A dispute resolution procedure was initiated in one case, the decision will be adopted in 2022.

When replying to complainants, the Regulator makes sure that service providers provide thorough and transparent information to customers about applicable prices and tariffs, as well as apply equal terms and conditions, when it comes to the accessibility and use of electricity and natural gas services.

It can be concluded that the Regulator ensures transparent, simple and free-of-charge procedures for dealing with customer complaints. Such procedures make it possible to settle disputes fairly and promptly, providing for a system of reimbursement or compensation where necessary.

### **3.5. Regulation of final customer prices**

In the electricity sector, the Regulator sets only network tariffs, supply prices are set by bilateral agreements. Both electricity produced and electricity consumed in Latvia are being sold and bought in a power exchange. The supply price is a subject of agreement, and the price can be fixed or variable (tied to the spot price).

In accordance with the Energy Law all users of natural gas are free to choose their supplier. All users, except households, are market participants. A household is a captive user unless it has used the option to become a market participant. There is one public trader in the territory of Latvia, which supplies all captive users at regulated tariffs. According to legislation, the obligation to provide natural gas trading services to captive users is imposed on the natural gas trader with the largest number of household users. Currently, the public trader is JSC "Latvijas Gāze".

In accordance with the prevailing legal framework, the Regulator sets tariffs for captive consumers in the natural gas supply sector in accordance with the methodologies approved by the Regulator.

The Methodology for the calculation of natural gas price for captive consumers provides for a transitional period - until the time when the natural gas price laid down in the methodology come, into force, the natural gas price which is determined depending on the amount of the natural gas consumption per year by the captive consumer includes the component of the system services which is determined by summing up the component of the transmission system service and the component of the natural gas storage service, and the trade service tariff for the relevant amount of the natural gas consumption per year approved by the Regulator`s Decision No 247 of 24 July 2008, as well as the natural gas acquisition price determined according to the principles set in the methodology. The public trader, in addition to the natural gas price, must apply a charge for the natural gas distribution system service in conformity with the differentiated tariffs for the natural gas distribution system service in force.

JSC "Latvijas Gāze" appealed the aforementioned Regulator's decision as it considered that the Regulator did not take into account all significant circumstances, and as a result the decision adopted is not fair to JSC "Latvijas Gāze". This case will be pending in 2021.

### **3.6. Activities of the Regulator in ensuring transparency of terms and conditions of supply contracts**

A very important duty is to ensure the transparency of terms and conditions when it comes to supply contracts. The Cabinet of Ministers has issued the regulation No 50 "Regulations Regarding the Trade and Use of Electricity"<sup>7</sup> of 21 January 2014 including main provisions and conditions of electricity supply contracts.

In the gas sector, the Cabinet of Ministers regulation No 78 "Regulations on trade and use of natural gas"<sup>8</sup> of 7 February 2017 sets the main provisions and conditions of natural gas supply contracts, as well as stipulates general rules for the supply of gas.

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<sup>7</sup> <https://likumi.lv/ta/en/en/id/263945-regulations-regarding-the-trade-and-use-of-electricity>

<sup>8</sup> <https://likumi.lv/ta/en/en/id/289031-regulations-regarding-the-trade-and-use-of-natural-gas>

The Regulator supervises the content of the contracts to prevent discrimination of energy users or non-transparent requirements.