

## Summary

The Public Utilities Commission of Latvia was established in accordance with the Law on Public Service Regulators on June 2001. The decision-making institution of the Commission is the board consisting of five commissioners. The board makes decisions on behalf of the Commission and issues administrative acts which are binding to specific public service providers and users.

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

The Commission performs the following functions:

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

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

In electricity market all industrial customers are eligible from July 1, 2004. Currently market opening is 76%. Due to lack of national electricity generation market no one of eligible customers has executed their rights to purchase electricity from other supplier. Starting from July 1, 2007 all customers will become eligible and market opening will reach 100%.

On the 5<sup>th</sup> of May Saeima accepted new Electricity market law where all the requirements erupted from the EU directives are included. The secondary legislation regarding independence of TSO and DSO, access rules to the grid, regulations for building direct lines, supply of consumers et cetera should be elaborated till the end of the year 2005. The TSO is a joint stock company "Augstsprieguma tīkls" 100% owned by "Latvenergo" and will start its operations as a separate entity from September 1, 2005. The dominant DSO is a company SJSC "Latvenergo" (99% of electricity distribution market).

In 2004 in the field of natural gas supply the Commission's experts participated in the preparation of amendments to the Energy Law aiming to adopt European Union directives on gas market development and adjust them to the situation of Latvia. At

the moment the goal of amendments to the law is to prepare the legal environment for third party access because it is unlikely that real competition could develop in the market soon. It is determined by dependence on external suppliers – JSC “Gazprom” and LLC “Itera-Latvija” supply gas through networks belonging to Gazprom. Alternative gas supply would be possible if the gas market in Russia would be liberalized or if connections with other EU countries and Norway would be ensured, but the construction of new connections would require significant additional investments which would not be cost-effective at the existing end tariff level. Taking into account the lack of competition in the natural gas supply sector, regulation of all consumer tariffs is justified also in the future. The regulatory process ensures greater tariff stability, balancing the interests of the supplier and users.