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**2022 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 2022. 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.

Russia's war of aggression against Ukraine caused uncertainty regarding the supply of electricity and natural gas and threaten the security of supply of energy. Therefore, in its work, the Regulator focused most of its attention on creating a regulation that strengthens Latvia's security of supply.

Of course, in the electricity sector national regulatory authorities (hereinafter – NRAs) and Ministries of the Baltic States also 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 work related to 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 2022.

In gas sector the Baltic and Finnish NRAs and natural gas transmission system operators (hereinafter – TSOs) continued working on a four-country market model to merge single natural gas transmission entry-exit system of Finland, Estonia and Latvia (hereinafter – FinEstLat system) and Lithuanian system.

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 2022, 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 2022, in relation to the implementation of the requirements of the EU Network Codes the Regulator has adopted a total of 2 decisions.

On 15 September 2022 the Regulator, Estonian Competition Authority and Energy Authority of Finland took decisions on Baltic Capacity Calculation Region`s regional design of long-term transmission rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 Establishing a Guideline on Forward Capacity Allocation (hereinafter – LTTR regional design). The LTTR regional design apply the type of LTTRs offered in the Baltic CCR are financial transmission rights - options in the meaning of Article 33 in direction from Estonia to Latvia and in direction from Finland to Estonia.

On 15 September 2022 the Regulator, Estonian Competition Authority and Energy Authority of Finland 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 (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>1</sup> (hereinafter – HAR Rules) and HAR Annex. In 2022 quarterly and monthly auctions also took place. In accordance with the analyses of the 2022 yearly auction

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<sup>1</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)



26 companies participated in the auction and 12 companies got the right to hedge the price differences on Estonian-Latvian border towards to Latvia.

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 October 2022 Baltic electricity TSOs - Elering AS, AS Augstsprieguma Tīkls and Litgrid AB - launched a public consultation on the Baltic balancing capacity market proposal. Public consultation is linked to the Baltic TSOs plan to establish Baltic Load-Frequency control (hereinafter – LFC) block with three LFC areas representing the three TSOs and enable co-operation on the Baltic LFC capacity market. To ensure common balancing market rules for Baltic balance service providers in Baltic LFC block, Baltic TSOs prepared the proposal for Baltic balancing capacity market pursuant with Article 33(1) and Article 38(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing. Baltic NRAs started evaluating the proposal in 2022 in order to issue decisions in 2023.

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>2</sup> establishing a process for the future regional natural gas market integration of their respective countries. In 2022 FinBalt NRAs continued thorough evaluation process of the inter-TSO compensation (hereinafter – ITC) mechanism submitted by FinBalt TSOs at the end of 2021 in accordance with the Roadmap.

However, changes in the geopolitical situation in 2022 have resulted in significant changes in the fundamentals of the region's gas market. FinBalt market was going through challenges that have not been encountered before and the turbulence is not over yet. Consequently, the ITC

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<sup>2</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)

mechanism, which was developed on the basis of other assumptions about the functioning of the market, no longer corresponded to the existing situation and could not provide benefits to all parties involved. Therefore, on 12 October 2022 the chairs of FinBalt NRAs agreed to postpone the merger, determining that a merger could happen no sooner than October 2024.

## **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.

The functions of the public trader are carried out by "Enerģijas 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" 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 25 August 2022 stating that JSC "Augstsprieguma tīkls" complies with the certification requirements.

On 20 October 2022, the Regulator approved the national ten-year transmission system development plan (national TYNDP) for 2023 – 2032. 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.

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 26 May 2022, 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>3</sup> includes procedures for the system management and utilisation, the activities of market 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;

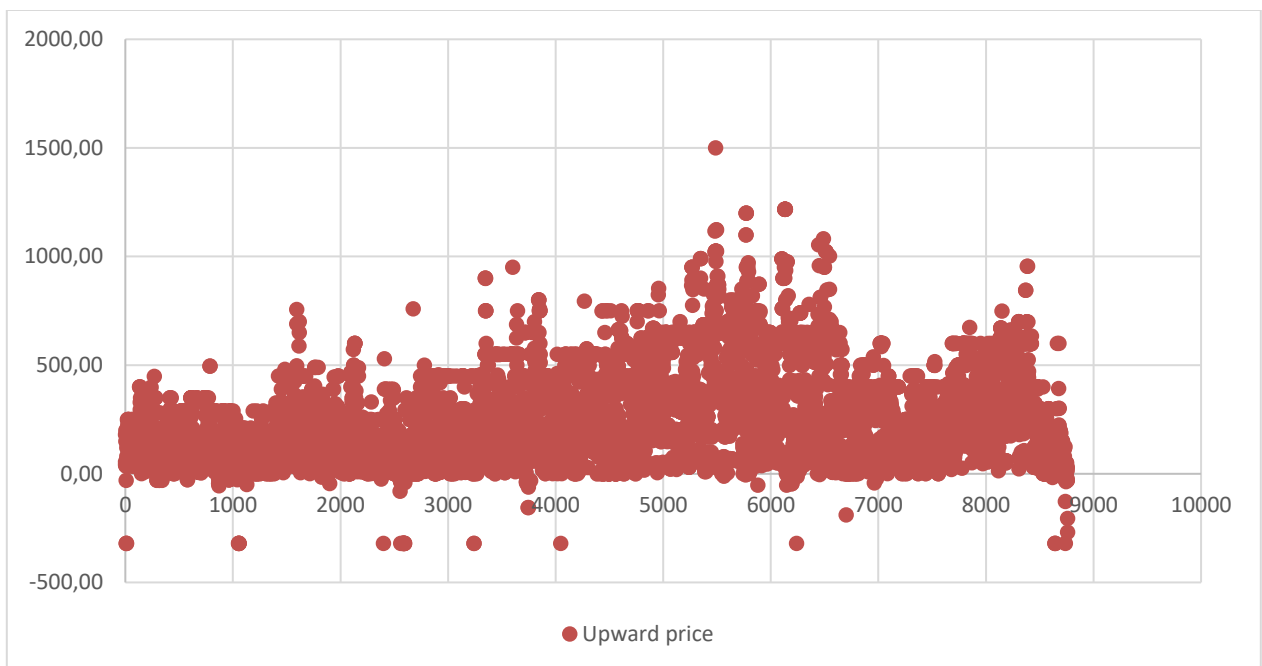
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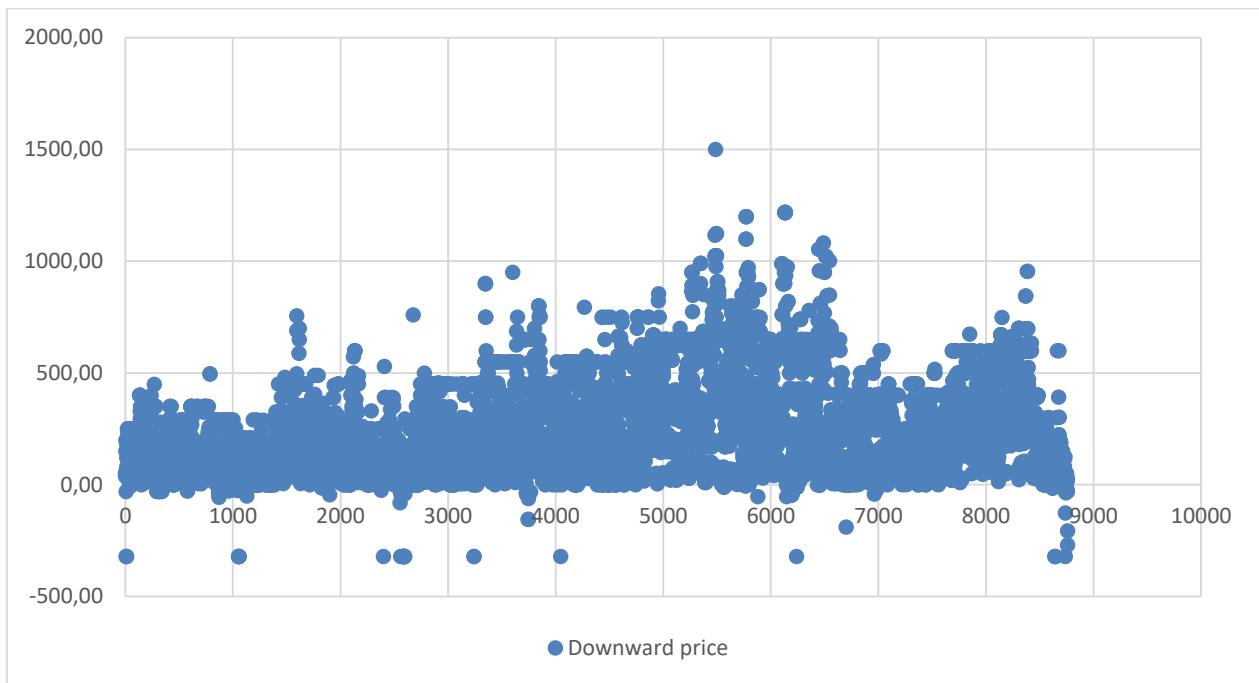
<sup>3</sup> <https://likumi.lv/doc.php?id=257943> (available in Latvian only)

- 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 238,24 EUR/MWh) in Latvia is higher than the downward balancing price (on average 232,96 EUR/MWh).





The balancing prices during year 2022 (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). 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>4</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 2022, the average amount of time needed for repairs in the distribution network for the final customers (including all unplanned events) was 68 minutes per one interruption. There were 10 interruptions in the transmission network with an average duration of 0.4 hours. Planned system average interruptions duration (SAIDI) in the distribution network for 2022 was 110 minutes, unplanned (including all events) – 130 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2022 was 0.55, unplanned (including all events) – 1.92.

The operations of public service providers are regularly inspected on the basis of the Regulator's decisions. In 2022, 21 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 24 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 August 2022, the tariff calculation methodology for electricity transmission system services have been amended. With the need to ensure the financial stability of the system operators of the energy sector, which was affected by the development of global prices, especially the rapid increase in the prices of energy resources in the world, and to promote provision of safe, efficient and high-quality services. Changes have been made regarding the regulation of the regulatory

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<sup>4</sup> <https://likumi.lv/doc.php?id=237330> (available in Latvian only)

and tariff period, determination of the cost efficiency ratio for transmission system operator and reconciliation of the regulatory account.

On 14 October 2022 electricity TSO JSC "Augstsprieguma tīkls" submitted to the Regulator a proposal for new electricity transmission tariffs for two - and half year period. On 22 May 2023, the Regulator approved electricity transmission system tariffs applicable from 1 July 2023. The average new tariff has increased by 30%. The main reason for tariff increase is rapid electricity price increase in 2022 and the previous approved regulatory period ended on 31 December 2022.

In November 2022, the tariff calculation methodology for electricity distribution system services have been amended. With the need to ensure the financial stability of the system operators of the energy sector, which was affected by the development of global prices, especially the rapid increase in the prices of energy resources in the world, and to promote provision of safe, efficient, and high-quality services. Changes have been made regarding the regulation of the regulatory and tariff period, determination of the cost efficiency ratio distribution system operator and reconciliation of the regulatory account.

In November 2022 electricity DSO JSC "Sadales tīkls" submitted to the Regulator a proposal for new electricity distribution tariffs for four and half year regulatory period. On 22 May 2023, the Regulator approved electricity distribution system tariffs applicable from 1 July 2023. The tariffs increase for all consumers in comparison with previously set tariffs. The average electricity distribution tariff has increased by 31%. Tariff increase for each tariff group depends on the consumer tariff plan and voltage level.

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.

In 2022, the Regulator adopted a new Methodology for Accounting and Calculation of Capital Costs which set unified principles of calculation of regulatory asset base (hereinafter – RAB), depreciation and the weighted average cost of capital (hereinafter – WACC) in the regulated sectors (electricity, gas, water, district heating and postal services), as well as introduced ex-post treatment of capital costs for new investment.

In particular, the most important changes brought by the new methodology were:

- Unified definition of RAB across all the sectors (while taking into account technical and other differences between sectors).
- The revaluations of assets done by the operators after 31 December 2021, are not taken into account when calculating RAB value.



- WACC in the regulated sectors is calculated as nominal pre-tax rate. However, in sectors with recent revaluations of assets (electricity and gas, postal services) a real pre-tax rate is calculated currently and the change to nominal WACC will happen in 2025.
- Unified approach in all sectors to calculation of depreciation: linear method and minimum useful asset lives for asset groups set in methodology.
- Ex-post treatment of capital costs for new investment (in sectors where revenue/ cost adjustments are taken into account when determining the allowed revenue). The RAB value for the regulatory period is fixed and any new investment during the regulatory period can be included in RAB only after commissioning at the start of the next regulatory period. However, for the period between actual commissioning and actual inclusion in RAB the capital costs for new investment are calculated separately according to the actual costs incurred and are included in tariff ex post - in the next regulatory period. This remuneration mechanism is provided for all investment included in network development plans approved by Regulator.

On 23 August 2021, the Regulator approved the WACC for the electricity distribution system operators and the TSO. For year 2022, the real WACC for micro and small electricity DSOs is 4.35% and for medium and large DSOs and the TSO the WACC is 2.63%. 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 2022 in Latvia were about 2% higher for household users and 15% higher 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 Plavinas 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 June 2021, the regulatory authorities of Estonia and Finland adopted coordinated decisions on cross-zonal risk hedging opportunities for the Finland-Estonia (FI-EE) bidding zone border, asking the relevant transmission system operators to issue long-term transmission rights (hereinafter – LTTRs) on the FI-EE bidding zone border. On 8 September 2022, the regulatory authorities of the countries of the Baltic CCR agreed on the approval of the regional concept of the long-term transmission rights of the Baltic CCR in accordance with Articles 31 of the FCA.

The type of LTTRs offered in the Baltic CCR are financial transmission rights - options in the meaning of Article 33 of FCA in direction from Estonia to Latvia and in direction from Finland to Estonia. The form of product is base load, its fixed amount of MW. The bidding zone borders covered by LTTR regional design proposal include all borders between three bidding zones, which are part of the Baltic CCR. The LTTR regional design proposal does not apply to bidding zone borders for which the competent NRAs have adopted coordinated decisions not to issue LTTRs in accordance with paragraph 1 of Article 30 of the FCA. Therefore, in LTTR regional design proposal is covered by Estonia, Finland and Latvia bidding zone borders.

The LTTR regional design proposal includes a forward capacity allocation time frames for the EE-LV bidding zone border, as follows:

- yearly timeframe;
- quarterly timeframe;
- monthly timeframe;

and for the FI-EE bidding zone border, as follows:

- yearly timeframe;
- monthly timeframe.

A compensation cap for curtailments, which shall be applicable to the FI-EE bidding zone border, is stipulated in the Specific Annex in accordance with Article 59(3) of the HAR to ensure that compensations do not surpass the congestion income. The Estonian Competition Authority (ECA), Regulator and the Energy Authority of Finland (EA) assessed Specific Annex proposal, and reached an agreement that it meets the requirements of FCA and as such can be approved. Regulator took a decision on 15 September 2022.

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 3 June 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, 50-125 MW on quarterly and 149-195 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 2022 was 2,170 MW for export and 2,350 MW for import. In 2022, the total amount of incoming energy was 2,331 GWh, outgoing energy was 2,996 GWh, and the amount of transit was 5,308 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 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.

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, 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 23 January 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 29 August 2022, JSC “Sadales tīkls” submitted a request to the Regulator for the approval of the ten years distribution system development plan 2023 – 2032.

On 14 September 2022, the Regulator held a public hearing about submitted the ten years distribution system development plan.

On 22 December 2022, the Regulator approved ten years distribution system development plan 2023 – 2032 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 2022, 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".

	2021	2022
Herfindahl-Hirschman Index:	high	high
Households	6 280	5 805
Legal entities	2 838	3 505
Registered suppliers	44	44
Contracts, households:	924 766	904 717
Fixed price	759 160 (82%)	796 499 (88%)
Variable spot price	165 606 (18%)	108 218 (12%)
Contracts, legal entities:	41 247	36 256
Fixed price	19 374 (47%)	20 043 (55%)
Variable spot price	21 873 (53%)	16 213 (45%)

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 in long-term reflected by the decreasing Herfindahl-Hirschman Index and the growing share of variable spot price-based contracts. Nevertheless, in short-term we see some opposite trends because of energy price spikes in 2022, which made consumers to be more cautious and hedge their risks, concluding fixed price contracts with well known market participants.

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 2022, 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 79% of the total produced electricity in Latvia. The other electricity producers are too small to offer significant volumes of energy for potential customers.

In 2022, the total annual consumption, including losses and self-consumption was 7,105 GWh and the amount of installed available generation capacity was 2,943 MW. Latvia produced 4,951 GWh of electricity, imported 5,308 GWh from the Nordic countries, and exported 2,996 GWh. 143 small hydroelectric power plants that generate electricity operate in Latvia. They have a total capacity of 29 MW. The generation from sun significantly increase during the year 2022 and have a total capacity of 140 MW.

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

In 2022, 6,863 GWh of electricity were bought and 4,777 GWh were sold in the NP's Elspot market. The average spot price of electricity increased sharply from 88.78 EUR/MWh in 2021 to 226.91 EUR/MWh in 2022 (+155% or 2.5 times). In August 2022, spot price of electricity reached a peak of 467,75 EUR/MWh. The sharp increase in prices was caused by several factors, which were based on the reactions caused by the Russian invasion of Ukraine - due to concerns about the sufficiency of energy resources in the upcoming winter in Europe, gas prices rose dramatically in the summer months and were the main reasons for the increase in prices in 2022.

There were no major acquisitions or mergers in the electricity sector in Latvia in 2022.

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

In 2022, electricity supply companies supplied 6,572 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 59 companies registered in the electricity producers' register – 49 for co-generation plants, 9 for wind power plants, and two for hydroelectric power plants. In 2022, the Regulator registered 11 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 2022 was as follows:

- households – 25%;
- non-household users – 75%.

In 2022, 100% of total electricity was traded in the electricity market at contract prices in accordance with bilateral agreements. During the year, 6.36% of all households and 26.97% 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 2022 amounted to 7,105 GWh. Peak load in 2022 was 1,220 MW. Forecasts for the peak loads in years 2023 - 2024 are as follows:

- 2023 – 1,225 MW;
- 2024 – 1,304 MW.

The currently available generation capacity amounts to 3,089 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 2022 covering around 99% of the whole territory of Latvia.

The total capacity of the transmission network is currently 8 913 MVA, which is almost eight times more than the peak load in 2022. 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 natural gas PSOs Elering, AS and AS "Conexus Baltic Grid" found necessity to facilitate the changes in gas market operations 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, determining the use the Dutch Title Transfer Facility (hereinafter – TTF) exchange price as a reference price in determining the daily imbalance price, if there is insufficient liquidity for trading platform or for some other objective and justified reason, requirements for the prevention of negative imbalance as well as clarifying of the neutrality fee attribution principles and imbalance price calculation algorithm.

### **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. 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. On 30 August 2023, the Supreme Court left unchanged the judgment of the Administrative District Court of 2 September 2019, but the cassation complaint of the JSC "Conexus Baltic Grid" was rejected.

In the process of annual evaluation, the Regulator took a decision on 26 May 2022 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 28 April 2022, 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 526 balancing operations (341 balancing activities were performed to eliminate positive imbalances and 185 balancing activities – to eliminate negative imbalances). The total number of balancing actions performed during the year is less than the number of balancing actions of the previous year - 383 and 283, respectively - a more pronounced decrease in the number of actions for clearing the negative imbalance of system users can be observed. In 2022, 95% of all balancing transactions were performed on the trading platform, while offers submitted by transmission system balancing service providers were used in 5% of cases. Compared to the previous year, in 2022, the balancing transaction performed on the trading platform the proportion decreased by one percentage point, which can be evaluated positively. 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.

In case it is not possible to determine either the marginal sell price or the marginal buy price as due to the lack of liquidity at the relevant trading platform or any other objective and substantiated reason, the TTF gas price index published on the platform indicated on TSOs webpage in respect of gas day D multiplied by the respective incentive factor shall be used. If the TTF gas price index for the gas day D is not available, then the latest gas price index available for the gas day before gas day D multiplied by the respective incentive factor shall be used.

JSC "Conexus Baltic Grid" jointly with the Estonian natural gas transmission system operator Elering AS, after evaluating previous experience, concluded that improvements to the balancing rules are needed and in the period from 12 September 2022 to 16 September 2022 organized a public consultation on the changes in the balancing regulations of the unified natural gas

transmission entry-exit system, agreed with the Regulator 25 November 2021 decision No 135 and the decision of the Estonian Competition Council No 7-29/2021-002.

The most important changes in the balancing rules of the unified natural gas transmission entry-exit system:

- the imbalance price determination algorithm has been changed;
- includes option to use Dutch TTF (Title Transfer Facility) price for the reference;
- clarified the principle of attribution of the neutrality fee;
- contains a reference to the negative imbalance prevention plan.

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 2022 ranged from -0.62 EUR/MWh to 0.64 EUR/MWh. The average neutrality charge in 2022 was 0.01 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 2022, 23 facilities of the DSO – JSC "GasO" 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 "GasO" 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 2022, the average amount of time needed for repairs in the distribution network for final customers was 52 minutes per one interruption. The planned system average interruptions duration (SAIDI) in the distribution network for 2022 was 7 minutes, unplanned – 0.07 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2022 was 0.46, unplanned – 0.00126.

#### **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. On 15 December 2022 Regulator started public consultation on the application of the Methodology for the Calculation of Natural Gas Transmission System Service Tariffs. Main changes were made to ensure the financial stability of the transmission system operator, which was affected by the development of global prices, especially the rapid increase in the prices of energy resources in the world, and to promote provision of safe, efficient and high-quality services. Changes have been made regarding the regulation of the regulatory and tariff period, determination of the cost efficiency ratio for transmission system operator and reconciliation of the regulatory account. Amendments in methodology were approved by Regulator on 13 July 2023.

In August 2022 the natural gas distribution system tariff calculation methodology was amended. With the need to ensure the financial stability of the distribution system operator, which was affected by the development of global prices, especially the rapid increase in the prices of energy resources in the world, and to promote provision of safe, efficient and high-quality services. Changes have been made regarding the regulation of the regulatory and tariff period, determination of the cost efficiency ratio from distribution system operator and reconciliation of the regulatory account.

On 1 September 2020 natural gas distribution system operator JSC "GasO" 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.

JSC "GasO" used the permission to calculate tariff for next tariff period granted by Regulator and published new distribution tariff values in official Gazete on 25 November 2022. New tariffs for the second tariff period came in to force from 1 January 2023. Tariff fixed part increased by 22% for all tariff groups, but tariff variable part increase is different for each of the tariff groups. Tariff increase mainly is related to the sharp increase in natural gas prices (costs of system losses increase) and sharp decrease of natural gas consumption.

NRA's 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 Incukalns 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 2022 tariffs remained the same as in the 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 remained the same as in the 2021/2022 storage cycle.

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 23 August 2021, the Regulator set the WACC for the natural gas transmission, distribution and storage system operator. For year 2022 the real WACC is set 4.35% for micro and small companies and 2.63% 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 2022, 33 companies were registered as natural gas traders, of which 22 were active in 2022. In 2022, 9,296 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 2022 natural gas transmission system's maximal technical capacity was (GWh/day) as follows:

- Incukalna UGS entry point – 276 GWh/day;
- Incukalna UGS exit point – 157 GWh/day;
- Kiemenai (LV/LT) entry point – 122.6 GWh/day;
- Kiemenai (LV/LT) exit point – 65.1 GWh/day;
- Luhamaa (EE/RU) entry point – 178.5 GWh/day;
- Luhamaa (EE/RU) exit point – 105 GWh/day.

The cross-border connections with Lithuania and Estonia 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 and Finland, and through the Lithuania-Poland new interconnection (GIPL) to Central Europe. 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 2022, about 13,772 GWh of natural gas was supplied to other countries.

Due to high natural gas wholesale prices in 2022 the filling rate of Incukalns UGS stood at 53% (12.6 TWh) at the end of the injection season.

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

In 2022, 33 companies were registered in the natural gas traders register.

In 2022, the total Latvian natural gas consumption was 8,636 GWh. The Latvian natural gas consumption structure in 2022 was as follows:

- households – 1,35 GWh or 16%;
- non-household users – 7,29 GWh or 84%.

In 2022, there were 385,067 natural gas customers. The number of customers has slightly decreased compared to 2021 when there were 388,984 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 2022, there have been no periods when the natural gas demand was not fully covered. Since the consumption of natural gas in 2022 was 9.3 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 23 August 2022, 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, if the Cabinet of Ministers' decides to declare a national energy crisis in the field of natural gas supply and the natural gas trader cannot supply the protected users with natural gas, the supply of the protected users shall be carried out by the State JSC "Latvenergo". Single transmission and storage system operator JSC "Conexus Baltic Grid" shall ensure that every year on March 1, the Incukalns UGS contains the amount of working gas necessary to ensure the daily withdrawal capacity of the Incukalns 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 Incukalns UGS.

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 Incukalns UGS and can be used only during the crisis if the relevant decision of the Cabinet of Ministers' has been made. In 2022, the purchase of the natural gas security reserve was determined in the amount of 1.8-2.2 TWh by Cabinet of Ministers' to State JSC "Latvenergo", depending on the availability of liquefied natural gas ship supplies. The amount was injected into the Incukalns UGS until 1 January 2023.

## **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 2022, 78 complaints of public utilities users were received and reviewed in the energy sector (44 about electricity and 34 about gas). Complaints on electricity supply were related to the registration of the amount of electricity consumed and the resultant bills (34%), connection to the grid and supply of electricity (18%), provider switching (12%), contracts conditions (9%), tariffs (7%) and other issues (20%). In the natural gas supply sector, most complaints were received about issues of the registration of the amount of natural gas consumed and resultant bills (35%), tariffs (30%), contracts conditions (12%) natural gas supply (6%) and other issues (17%).

### 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 2022, the amount of electricity produced from renewable energy resources reached 61% of net production, including hydropower plants with installed capacity more than 5 MW. 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>5</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 Ltd "TET" and Ltd "Enefit" (from 01.01.2023). 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>5</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 2022 the Latvia Domain of Guarantees of Origin were issued guarantees for 3.92 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 2022, 44 applications were submitted to the Regulator about the actions of the public service provider in the electricity sector. Four complaints were justified and four were not related to the Regulator's competence. In 2022, two decisions were adopted.

In 2022, 34 applications were submitted to the Regulator about the actions of the public service provider in the natural gas sector. None complaint was justified and six were not related to the Regulator's competence. No dispute resolution procedure was initiated 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. Until the full natural gas market is fully opened to households according to the amendments to the Energy Law (opening date 1 May 2023), designated public trader – 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.

### **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>6</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>7</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.

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

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<sup>6</sup> <https://likumi.lv/ta/en/en/id/263945-regulations-regarding-the-trade-and-use-of-electricity>

<sup>7</sup> <https://likumi.lv/ta/en/en/id/289031-regulations-regarding-the-trade-and-use-of-natural-gas>