

## **1. Foreword**

The Public Utilities Commission's (hereinafter – Regulator) report provides an overview of the regulatory developments of the electricity and gas sectors in Latvia in 2015. Regulatory activities covered various tasks, mainly stemming from continued implementation of the EU directives or regulations, both in electricity and gas sectors.

In electricity sector, in 2015, all household and non-household customers were buying electricity in an open market from a chosen electricity trader. In this respect, the Regulator paid a particular attention to wholesale and retail trade, where one of the aspects is a successful implementation of the Regulation on wholesale energy market integrity and transparency (hereinafter – REMIT). The Regulator co-operates with the Agency for the Cooperation of the Energy Regulators (hereinafter – ACER) and Baltic and Nordic national regulatory authorities (hereinafter – NRAs) to monitor the electricity wholesale market in order to prevent eventual market abuse and manipulation of wholesale electricity prices.

Continuing Latvia's integration into the common European Union energy market, the Regulator started the implementation of the European Commission's Network codes to establish a unified, coordinated and appropriate single day-ahead and intraday market coupling, where the important role for the Regulator is to supervise a nominated electricity market operator (hereinafter – NEMO) in Latvia and to accept respective rules and methodologies developed by EU NEMOs and transmission system operators.

Another area of activity was related to infrastructure projects within BEMIP region, Projects of Common Interest (hereinafter – PCI) particularly in electricity includes new interconnections between Member States in the Baltic region, reinforcing internal grid infrastructures accordingly, to foster market integration inter alia by working towards the integration of renewable energy in the region, providing electricity transmission from Estonia in the north to Lithuania – Poland border in the south of the Baltics via Latvia and increasing the transmission capacity via the Baltic States.

The international co-operation within the Council of the European Energy Regulators (hereinafter – CEER) and ACER, as well as regional co-operation has proved its efficiency towards the internal market. When talking about the electricity wholesale market, the Baltic region is largely integrated within the Nordic region. The implementation of PCIs and Network codes will cover further areas of market integration in this respect. Also Cross-Zonal Capacity Allocation within the Baltic States and with the 3rd Countries takes into account the new topology of transmission grid from 2016, when the new interconnections with Sweden and Poland are becoming operational.

In gas sector, the movement towards the liberalisation of the natural gas market, to be opened from April 3, 2017, has to be mentioned. Thus, it will end the derogation applied to Latvia in the gas sector. An important and complex work had to complete the system operator's established rules for the third parties non-discriminatory access to the natural gas infrastructure. The Regulator organised several public consultations on this issue and analysed their results.

The involvement in the liberalization process of the Latvian gas market will be one of the Regulator's priorities in 2016.

Rolands Irklis

Chair

Public Utilities Commission of Latvia

## **2. Summary: Major developments over the last year**

### **2.1. The basic organizational structure and competences of the regulatory agency**

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, railway transport, municipal waste management and water management.

According to the Law on Regulators of Public Utilities the Regulator is institutionally and functionally independent. The Regulator independently performs the functions delegated to it by the Law on Regulators of Public Utilities 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 methodology for calculation of tariffs;
- determine the 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 licence 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.

The Regulator consists of a Board composed of a Chairperson and four members appointed by the parliament for five years and an executive body subordinated to the Board. 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.

## **2.2. Main developments in the electricity and 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 European Union legal norms at European level. In 2015, the Regulator constantly participated in forums, conferences and workshops at international level.

On November 3 and 4, 2015, the Regulator organized the Baltic Electricity and Gas Market Forum where the Regulators from the Baltic countries, Poland, Greece and Finland, the three Baltic transmission system operators, the ACER, Finnish and Lithuanian gas exchange representatives, as well as traders and representatives of the ministries raised issues concerning REMIT, implementation of REMIT Regulation, coordination and assessment of cross-border investments or the so called projects of common interest, as well as Grid Code implementation and other topics.

On December 5, 2014, the Prime Ministers of the Baltic States in Tallinn jointly agreed that it is of crucial importance to ensure the implementation of the EU Third Energy Package together with clear, transparent and competitive rules for third party access to the gas system throughout the Baltic States. The Prime Ministers of the Baltic States also initiated the establishment of the Regional Gas Market Coordination Group (hereinafter – RGMCG), which would consist of the relevant ministries, regulators and transmission system operators, with the main task to develop an Action Plan on regional gas market development. They also invited the representatives of Finland's respective stakeholders to join the RGMCG.

The Regulator actively participated in the RGMCG - harmonization of new developments of Baltic and Finnish gas markets was launched under this action. In order to achieve these goals, all the members of this group are committed to working closely together on the regional challenges focusing on reaching an agreement on the measures for the development of an open, transparent and effectively functioning regional gas market, as well as for the implementation of these measures. The actions of the RGMCG will facilitate the achievement of BEMIP objectives.

The Regulator also organized a seminar on the French and Belgian experience in the regulation of gas market, where issues about the European Union legislation and its transposition into the national legislation of France and Belgium were discussed. The role of the gas storage, transmission system, etc. was also discussed.

A positive achievement in the electricity sector over the past few years is that from July 1, 2007 all customers including households can choose alternative suppliers of electricity. From January 1, 2015 all end-users have to choose their electricity trader.

From July 1, 2014 JSC "Latvenergo", the largest electricity producer and trader in Latvia, sells all produced electricity and buys all the needed electricity through an organized market place – power exchange "Nord Pool" (hereinafter – NP).

In 2015, 100% of total electricity was traded in the electricity market at contract prices in accordance with bilateral agreements and 75% of that electricity was traded by the dominant trader in the market - JSC "Latvenergo", and the remaining 25% - by other traders.

On July 2, 2015, the Regulator approved that JSC "Sadales tīkls" fulfills the requirements of the independence of an electricity distribution system operator (hereinafter – 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 DSO are not engaged in the structures of the vertically integrated electricity undertaking JSC "Latvenergo" and have the right to take independently from JSC "Latvenergo" decisions regarding the distribution system assets. And that the DSO ensures equal access to the electricity distribution system.

Each year the electricity system owner JSC "Latvijas elektriskie tīkli" has to submit a report regarding the ability of the electricity system owner to co-operate with the transmission system operator JSC "Augstsprieguma tīkls". Report includes information how the electricity system owner performs its obligations set by law according to Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.

On July 16, 2015, the Regulator took an annual decision on independence of JSC "Latvijas elektriskie tīkli". The electricity transmission system owner is separated from the activities of production, transmission and trade of electricity, the board members of the transmission system owner are not engaged in the structures of a vertically integrated electricity undertaking JSC "Latvenergo", the transmission system owner utilizes only such services, provided by a vertically integrated electricity undertaking, which ensure the confidentiality of commercial information, and the electricity transmission system owner has the right to take decisions independently, without interference by JSC "Latvenergo". The electricity transmission system owner elaborated a compliance program and published a report on the performed measures to ensure its independence.

JSC "Augstsprieguma tīkls" has to submit a report annually regarding the compliance of the transmission system operator with the certification requirements.

After the receipt of these reports, the Regulator took a decision on July 30, 2015 stating that JSC "Augstsprieguma tīkls" complies with the certification requirements and the electricity transmission system owner JSC "Latvijas elektriskie tīkli" is able to fulfill its obligations. The Regulator also examined how the conditions set out in the Regulator's decisions of January 30, 2013 and July 9, 2014 on certification and designation of JSC "Augstsprieguma tīkls" as an independent system operator (hereinafter – certification decisions) are fulfilled. The Regulator gained the confidence that the conditions set out in the certification decisions will be fulfilled in an accurate and timely manner. According to certification decisions JSC "Augstsprieguma tīkls" till January 30, 2015 has taken over from JSC "Latvijas elektriskie tīkli" all the assets of the transmission system service and maintenance, the transmission system development, new network constructions, as well as the existing network rebuilding and renewal. The fulfilment of the conditions set out in the certification decisions will be evaluated in detail in the next evaluation period.

On August 6, 2015, the Regulator approved the ten-year transmission system development plan (TYNDP) for 2016 - 2025. In its decision the Regulator also stated that the national TYNDP complies with the Community-wide TYNDP.

On December 3, 2015, the Regulator designated NP as a NEMO in Latvia. Pursuant to the European Commission (EC) Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (hereinafter – CACM Regulation), each Member State has an obligation to designate at least one NEMO in each electricity bidding zone in its territory which shall ensure the single day-ahead and/or intraday market coupling. Latvia has one electricity bidding zone and the Regulator is the institution responsible for designation of one or more NEMOs.

In the natural gas sector, Directive 2009/73/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (hereinafter – Gas Directive) guarantees to Latvia the right to derogate from specific articles of Gas Directive and Regulation (EC) No 715/2009 of the European Parliament and of the Council of July 13, 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 in whole while derogation criteria are met. However, according to the amendments to the Energy Law, adopted on March 13, 2014, the Latvian parliament decided to set a deadline for the derogation – April 3, 2017 – unless one of the following conditions has been met earlier:

- Latvian natural gas system is directly connected to the interconnected system of any Member State other than Estonia, Lithuania and Finland;
- Market share of the dominant supplier is less than 75% of the total natural gas consumption.

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% of the annual turnover of the regulated service provider and the owner of the electricity/gas transmission system in case of failure to comply with their obligations under the relevant national and European Union legal acts. Regulations of the Cabinet of Ministers set out a detailed procedure on how the Regulator must calculate the amount of fines.

Pursuant to Regulation (EU) No 347/2013 of the European Parliament and of the Council of April 17, 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 Projects of Common Interest No.4.4.1 “Internal Line between Ventspils, Tume and Imanta (LV)” (hereinafter – Project 4.4.1) and No.4.2.1 “Interconnection between Kilingi-Nõmme (EE) and Riga CHP 2 substation (LV)” (hereinafter – Project 4.2.1), the Project 4.2.2 “Internal Line between Harku and Sindi (EE)” (hereinafter – Project 4.2.2), and the Project 4.2.3 “Internal line between Riga CHP 2 and Riga HPP (LV)” (hereinafter – Project 4.2.3) (hereinafter altogether referred to as Projects 4.2) and No. 4.8.1 “Interconnection between Tartu (EE) and Valmiera (LV)” (hereinafter – Project 4.8.1), and the Project 4.8.3 “Interconnection Tsirguliina (EE) and Valmiera (LV)” (hereinafter – Project 4.8.3), are part of the priority electricity corridor of the Baltic Energy Market Interconnection Plan in electricity, specified in Annex I.4 of Regulation 347/2013: interconnections between Member States in the Baltic region and reinforcing internal grid infrastructures accordingly, to end isolation of the Baltic States and to foster market integration inter alia by working towards the integration of renewable energy in the region. The Project of Common Interest No.8.2.4 “Modernization and Expansion of Incukalna Underground Gas

Storage" (hereafter – Project 8.2.4) is 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, the European Commission adopted the Commission delegated Regulation (EU) No 2016/89 of November 18, 2015 amending Regulation (EU) No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure as regards the Union list of projects of common interest (hereinafter – EC Regulation 2016/89). The European Commission approved the second list of PCI including the Project 4.4.1, Projects 4.2, Project 4.8.1 and Project 4.8.3. The inclusion of the Project 4.4.1, Projects 4.2, Project 4.8.1 and Project 4.8.3 in electricity and Project No.8.2.4 in gas in the second PCI list demonstrates their compliance with the PCI criteria set out in Article 4 of Regulation 347/2013.

Pursuant to Article 16 of Regulation (EC) No 714/2009, accrued revenues resulting from congestion management will be invested to increase the capacity of the Latvian – Estonian interconnection, namely, to implement the Project 4.2.1.

Under the 2014 Connecting Europe Facility (hereafter – CEF) call, Project 4.2.1 and Project 4.4.1 were selected for receiving financial assistance under CEF-Energy as of November 21, 2014. Maximum EU financial assistance for Project 4.4.1 is EUR 55,089,000, for Project 4.2.1 EUR 112,301,701. Project 8.2.4 was not included in the list of actions selected for receiving financial assistance under CEF-Energy on November 21, 2014 and in 2015. Under the 2014 CEF call, Project 4.2.1, Project 4.4.1 and Project 8.2.3 were selected for receiving financial assistance under CEF-Energy as of November 21, 2014. Maximum EU financial assistance for Project 4.4.1 is EUR 55,089,000, for Project 4.2.1 EUR 112,301,701 and for Project 8.2.3 EUR 27,592,500. Project 8.2.4 was not included in the list of actions selected for receiving financial assistance under CEF-Energy on November 21, 2014 and in 2015.

### **2.3. Major issues dealt with by the Regulator**

The Regulator carries out licensing and registration, and supervision of conditions of the licence or conditions of general authorisations.

According to Regulations of the Cabinet of Ministers on 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 if the total trading amount exceeds 4,000 megawatt hours per year;
- 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.

In 2015, one new electricity producer was registered in the electricity producers' register.

At the end of the reporting year, there were 200 companies registered in the electricity producers' register – 141 for co-generation plants, 55 for wind power plants, 2 for hydroelectric power plants and 2 for solar power plants. In 2015, the Regulator registered 16 new electricity traders. At the end of the reporting year, 76 companies were registered in the electricity traders' register and 11 licences were issued for the distribution of electricity and 1 licence for transmission of electricity. JSC "Latvijas Gāze" has licenses for the storage, transmission, distribution and trade of natural gas.

The operations of public service providers are regularly inspected on the basis of the Regulator's decision. In 2015, 158 objects of energy supply companies were inspected in order to examine their operations and compliance with license requirements or general authorisation conditions, among them 69 objects were in the electricity supply sector, 79 in the heat supply sector, and 10 in the natural gas supply sector. 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 50 objects according to European Standard EN 50160 requirements. Some inspections were also conducted at facilities following the complaints that had been received.

## ***Tariff regulation***

### ***Electricity***

The Regulator approves tariffs for the generation of electricity and thermal energy in combined heat and power plant (hereinafter – CHPP) from fossil resources. The Regulator approves tariffs for companies that generate electricity in CHPP with a capacity above 4 MW, electricity transmission and distribution tariffs, as well as - if the trader is not authorized to set tariffs – tariffs for electricity trade to captive customers. The latter obligation was in force till December 31, 2014, as there is no end-user tariffs regulation starting from January 1, 2015.



For CHPP with capacity of less than 4 MW and for power plants that use renewable energy resources, the purchase price for electricity is specified by law and it is not within the competence of the Regulator.

According to the Eurostat data for 2015, electricity tariffs for household users in Latvia were about 20% higher than in the Eastern EU countries. The price increase is related to the electricity market opening for household users from January 1, 2015. Electricity tariffs for industrial users in Latvia were approximately at the same level as the tariffs in other Eastern EU countries.

### ***Natural gas***

End-user tariffs for trade of natural gas are based on the purchase price of natural gas on the border of the country and tariffs of natural gas supply services - transmission, storage, distribution and trade.

Regulation of all customer tariffs continues to be justified due to the fact that Latvia's natural gas market is in the process of opening, but is not opened yet. This situation still ensures greater tariff stability, as well as balancing out the interests of the supplier and customers.

### ***Protection of customer interests***

National legal acts and legal acts of the European Union 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 2015, 80 complaints of public utility users were received and reviewed in the energy sector. Complaints on electricity supply mostly were related to the registration of the amount of electricity consumed and the resultant bills (36%), quality of energy supply (2%), supply of electricity (18%), electricity tariffs (6%), installation of a new connection and the connection fee (23%) and other issues (15%). In the gas supply sector, most complaints concerned issues of natural gas supply (53%), the registration of the amount of natural gas consumed and resultant bills (37%), installation of a new connection and other (10%).

## **3. Regulation and performance in the electricity market**

### **3.1. Regulatory issues**

#### **3.1.1. General**

The state-owned company JSC "Latvenergo" dominates in the field of electricity supply in Latvia, controlling more than 90% of installed capacity for the generation of electricity in Latvia. In 2015, JSC "Latvenergo" was selling electricity only to market participants.

The functions of the electricity transmission system operator (hereafter – TSO) are carried out by the independent system operator JSC “Augstsprieguma tīkls”. On January 30, 2013, the Regulator certified JSC “Augstsprieguma tīkls” as an independent transmission system operator under a condition that no later than January 31, 2015 JSC “Augstsprieguma tīkls” has to perform the maintenance of fixed assets of the transmission system itself or has to conclude an agreement for performance of specific works with such a company which is neither directly nor indirectly associated with activities of electricity generation, trade and distribution. In 2015, the Regulator gained the confidence that the certification decision will be fulfilled in an accurate and timely manner.

In February 2014, JSC “Latvenergo” established a daughter company JSC “Enerģijas publiskais tirgotājs” and from April 1, 2014 the new daughter company provides functions of the public trader. In accordance with the amendments to 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.

JSC “Latvijas elektriskie tīkli” (a part of a vertically integrated electricity undertaking JSC “Latvenergo”) is a transmission network asset owner and is responsible for financing investments in the transmission system. The functions of the electricity DSO are carried out by JSC “Sadales tīkls” (a part of a vertically integrated electricity undertaking JSC “Latvenergo”), as well as 10 other licensed companies that distribute electricity. 401 power plants are currently operating; of these, 146 are small hydroelectric power plants that generate electricity. They have a total capacity of 28 megawatts (MW). There are 4 hydroelectric power plants, with capacity more than 1 MW. They have a total capacity of 1560 MW. Latvia has 53 wind power plants with a total capacity of 58 MW, and 202 co-generation stations, with a total installed capacity of 1,277 MW (including biomass and biogas power plants). Latvia exports electricity mostly during the flood season in spring. The total amount of import is approximately 30% of total consumption, and depends on the amount of water in the river Daugava.

The electricity market was opened on July 1, 2007 when all customers became eligible to choose a supplier of electricity. There are several companies in Latvia which sell electricity to market participants. The biggest ones are JSC “Latvenergo”, “Enefit” Ltd, “Inter RAO Latvia” Ltd, “Baltic Energy Service” Ltd, and “Geton Energy” Ltd.

On January 21, 2014, the Cabinet of Ministers adopted Regulations regarding the trade and use of electricity, setting out basic rules for household customers and conditions for the universal service. From January 1, 2015, all household customers buy electricity from a chosen electricity trader at a market price.

### **3.1.2. Management and allocation of interconnection capacity and congestion management mechanisms**

On January 22, 2014, Latvian and Estonian TSOs signed an agreement on the principles of calculation and allocation of the cross-border capacity within Latvia, Estonia and with the 3rd countries. On February 10, 2014, the Latvian and Lithuanian TSOs signed an agreement on the principles of calculation and allocation of the cross-border capacity within Latvia, Lithuania and with the 3rd countries, both agreements apply to the interconnections of the Baltic countries, as well as to foreign cross-border networks for the trade with non-member states of the European Economic Area (the 3rd countries). The agreement was crucial to continue the integration of the Baltic electricity market successfully. NP ensured allocation of the capacity for the market participants on the basis of information provided by the Baltic TSOs and according to the unified methodology (principles) of calculation and allocation of the cross-border capacity. The aforementioned methodology was fully applied as the NP Latvian bidding area was opened on June 3, 2013. Starting from this date NP ensured implicit auctions between the Baltic countries. However, the capacity optimization method is applied for the 3rd countries. 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.

In 2015, the Baltic countries had congestion at the Estonian and Latvian interconnection for 66% of the total time of the year on average.

From January 1, 2014 the Limited Physical Transmission Rights (hereinafter – PTR limited) auctions were introduced on the Estonia-Latvia border in the direction from Estonia to Latvia by Latvian and Estonian TSOs. Part of the Net Transfer Capacity (hereinafter – NTC) on the Estonian - Latvian border that is calculated by TSOs in accordance with the transmission capacity allocation methodology is offered to the PTR limited auction as yearly, quarterly and monthly capacities.

NTC between the Estonian and Latvian systems will continue to be distributed by NP for allocation. At the same time, PTR limited (200 MW on annual, 65-100 MW on quarterly and 50-150 MW on a monthly basis) will be 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 PTR limited a fee equivalent to the price difference of the NP Estonian and Latvian price area in the corresponding period. The PTR limited auctions are organized by respective TSOs and operated by Estonian TSO - Elering AS.

The Baltic TSOs calculated cross-border trading capacity in accordance with their inter-agreement (hereinafter – Agreement), including:

1. The Baltic internal cross-border trading capacity calculation rules;
2. Cross-border capacity calculation rules with the 3rd countries;
3. Cross-border trading capacity allocation rules within the Baltic States and with the 3rd countries.

In October 2015, the Baltic States National Regulatory Authorities have approved the Baltic TSOs' Agreement on Terms, Conditions and Methodologies on Cross-Zonal Capacity Calculation, Provision

and Allocation within the Baltic States and with the 3rd Countries. The Baltic TSOs' working group developed the Agreement, by taking into account the expected new typology of transmission grid from 2016, when the new interconnections with Sweden and Poland will become operational, and requirements stemming from CACM Regulation. The Agreement will enter into force from January 1, 2016.

According to the ENTSO-E TYNDP 2014 and national TYNDP, approved by the Regulator, the Estonia-Latvia 3rd interconnection should be commissioned in 2020. As a result, the increased cross-border transmission capacity will make it possible for the market participants to access a larger market area and compete in the European common electricity market.

The total amount of Latvia's interconnection capacity in 2015 was 2,080 MW for export and 1,600 MW for import. In 2015, the total amount of incoming energy was 5,245 TWh, outgoing energy was 3,424 TWh, and the amount of transit was 3,224 TWh.

### ***Regulating the tasks of transmission and distribution companies***

Latvia has one TSO - JSC "Augstsprieguma tīkls", designated as an independent system operator. The Regulator annually examines the TSO's conformity with the certification requirements and approves a ten-year network development plan.

JSC "Latvenergo" owns the biggest DSO - JSC "Sadales tīkls". In addition, there are 10 local distribution companies, serving less than 100,000 electricity customers.

### ***Network tariffs***

Methodologies for the calculation of transmission and distribution system service tariffs have been elaborated based on the Electricity Market Law, the Law on Regulators of Public Utilities, and by taking into consideration regulations related to the supply and trade of electricity, 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 in terms of the specific relationship between equity and borrowed capital. The rate is set so as not to affect a utility's

choice between the use of equity and borrowed capital. At the request of a utility, the Regulator can set the rate of return on capital before a 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.

On June 18, 2015, the Regulator approved JSC "Augstsprieguma tīkls" electricity transmission system tariffs which were lower than the previously applicable ones and entered into force from August 1, 2015. Depending on the electrical connection points in the transmission system, electricity transmission tariff reduction is in the range from 0.8% to 8.1%.

On November 5, 2015, the Regulator made amendments to the electricity transmission and distribution system services tariff calculation methodology, by changing the existing regulation. Henceforth, the Regulator will approve an annual rate of return on capital, which the electricity transmission and distribution system operator will apply in the preparation of tariff calculation. According to the power transmission and distribution system service tariff calculation methodologies the rate of return on capital is the weighted average cost of capital calculated from the determined rate of return on own capital and rate of return on borrowed capital.

On November 19, 2015, the Regulator approved the rate of return on capital in electricity distribution and transmission system. The approved rate of return on capital relates to the electricity TSO - JSC "Augstsprieguma tīkls" and authorised DSOs. In evaluating TSO and DSOs tariffs, the Regulator by checking the eligibility of the costs included in the costs of tariffs may propose a review of tariffs in response to changes in tariffs' influencing factors, including profitability.

### ***The quality of services***

On October 4, 2011, the Cabinet of Ministers approved Rules on Public Power Supply Network Voltage Requirements that define quality requirements. The rules entered in force on January 1, 2012. Rules prescribe the mandatory applicable standard that applies to the public power supply network voltage, which is 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 2015, the average amount of time needed for repairs in the distribution network for the final customers was 1.6 hours per one user. There were 13 interruptions in the transmission network with an average duration of 0.5 hours. Planned system average interruptions duration (SAIDI) in distribution network for 2015 was 206 minutes, unplanned – 144 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2015 was 0.827, unplanned – 2.35.

On June 26, 2013, the Regulator approved the Grid Code, which entered into the force from July 3, 2013. The Grid Code includes procedures for the system management and utilisation, the activities of market participants, except final customers. In accordance with the Grid Code, 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 on the basis of the data of the transmission and distribution operators. The TSO shall ensure the compliance with the procedures specified in the Grid Code. The Regulator may assign the TSO to elaborate amendments to the Grid Code and determine a time period for the elaboration and submission thereof to the Regulator.

### ***Balancing***

The Electricity Market Law states that the TSO is responsible for power balance in the system, as well as for providing balancing services at the transmission network level. A market participant has the right to become a balancing service provider by entering into a balancing contract with a TSO.

The TSO has developed balancing and settlement procedures which are set out in the Grid Code.

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 tariffs for the captive customers include the balance energy costs.

According to the Electricity Market Law, administration of imbalance settlements is the responsibility of the TSO. The balance settlement is provided on an hourly basis.

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

In view of the Network Code on Electricity Balancing project and their timely implementation, in 2015 the Baltic TSOs started a balance management harmonization study to carry out an in-depth analysis on a harmonised balance management model most suitable for the Baltic balance system. The study, titled "Baltic's balance management model study and harmonization plan towards EU energy markets model" delves into different balance model aspects, describing possible alternatives in terms such as the number of balance portfolios, the cost structure for covering balance service, and different pricing methodologies for imbalance energy etc. The study was prepared in close collaboration with all three Baltic TSOs (Elering, Augstsprieguma tīkls and Litgrid). The Baltic TSOs' plan is to launch a common Baltic balancing market by 2018. As a prerequisite, the Baltic countries must harmonize and adopt a common set of imbalance settlement arrangements beforehand. The goal is to develop unified, transparent conditions to all market participants which should in effect level the playing field for all market participants throughout the Baltics, foster competition and thus enhance the Baltic electricity market's efficiency.

### **3.1.3. Effective unbundling**

There are 11 DSOs in Latvia – 10 of them are small operators with less than 100,000 customers. The dominant DSO is JSC "Sadales tīkls". It launched its operations as a separate entity within the holding company JSC "Latvenergo" on July 1, 2007. JSC "Sadales tīkls" is unbundled from the vertically integrated undertaking's production and supply affiliates. On October 1, 2011, JSC "Latvenergo" invested all distribution network assets previously owned by JSC "Latvenergo" in JSC "Sadales tīkls".

From January 30, 2013 JSC "Augstsprieguma tīkls" operates as an independent system operator. From April 1, 2011 JSC "Augstsprieguma tīkls" rents the network assets from JSC "Latvijas elektriskie tīkli" – the daughter company of JSC "Latvenergo" which was established as the transmission system owner and the Regulator has verified that JSC "Latvijas elektriskie tīkli" has an adequate level of necessary independence from the JSC "Latvenergo".

The Electricity Market Law obliges TSO and DSOs to publish separate balance sheets. With regard to the setting of rules on the compilation of unbundled accounts, the Regulator approves cost allocation methodologies and implements its right to ensure a compliance audit that is conducted by an independent auditor.

At the end of 2015, JSC "Latvenergo" had 1,464 employees, JSC "Augstsprieguma tīkls" had 517 employees and JSC "Sadales tīkls" – 2,568 employees.

The Regulator had to confirm annually that the biggest DSO JSC "Sadales tīkls" had 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.

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.

## **3.2. Competition issues**

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

In 2015, 75 companies were registered as traders of electricity and 23 of them actively operate as intermediaries in the supply of electricity customers. Electricity generation in Latvia is almost entirely carried out by JSC "Latvenergo" producing approximately 58% of the total electricity consumption. The other electricity producers are too small to offer significant volumes of energy for potential customers.

In Latvia, 12 traders during 2015 were trading electricity in NP power exchange and 100% of the total electricity consumed in Latvia was traded through NP power exchange.

In 2015, the total annual consumption, including losses and self-consumption was 7,207 GWh and the amount of installed available generation capacity was 3,002 MW. Latvia produced 4,857 GWh of electricity, imported 5,247 GWh from the neighbouring countries (Lithuania, Estonia, Russia and Belarus), and exported 3,424 GWh.

JSC "Latvenergo" produces about 90% of the total generation volume in the country and is the only company in Latvia that has a share of more than 5% of the installed available capacity.

The share of the three largest producers was 94%.

At the end of 2015, all the electricity was sold at contract prices, 75% were sold by JSC "Latvenergo" and 25% - by other traders.

There were no acquisitions or mergers in the electricity industry in Latvia in 2015.

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

In 2015, electricity supply companies supplied the required volume of energy, selling 6,667 GWh (Regulator's data) of electricity to final customers – 0.7% less than in 2014. One quarter of this electricity was consumed by local residents for household needs, and the remaining part was consumed by non-household customers. The number of customers has not changed significantly. Most of them consume a comparatively small volume of electricity.

According to the Eurostat data for 2015, electricity tariffs for household customers in Latvia were about 20% higher than in other Eastern EU countries.

## **4. Regulation and performance in the natural gas market**

### **4.1. Regulatory issues**

Natural gas supply to Latvia is highly dependent on external suppliers – Gazprom and "Itera-Latvija" Ltd. Alternative gas supplies will become possible if the Russian gas market is liberalised, and connections to other EU countries and Norway are ensured, or the LNG storage and/or regasification



plant is built in Latvia. All of this requires significant investments, and they would not be cost-effective at the current declining annual consumption of natural gas.

At the end of 2015, the Lithuanian National floating LNG regasification terminal with a capacity of 2-3 billion m<sup>3</sup>/year in Klaipeda started to operate. Klaipeda LNG terminal project was implemented by the company "Klaipedos Nafta". After improving the transmission network by implementing the Project of Common Interest No.8.2.3 "Capacity Enhancement of Klaipeda - Kiemenai pipeline in Lithuania", it is an alternative for Latvia's and Estonia's customers.

According to the project promoter's assumptions about securing financing (own financing and the European Union co-financing), implementation of the Project 8.2.4 will impact the existing tariffs of natural gas transmission system services and storage services. Pursuant to Article 12(1) of Regulation 347/2013, the allocated part of the efficiently incurred investment costs, which excludes maintenance costs, related to a PCI shall be borne by the relevant transmission system operators of the Member States to which the project provides a net positive impact.

The regulation of tariffs for all customers will continue to be justified for a foreseeable future. The regulatory process ensures stronger tariff stability and a balance between the interests of a supplier and customers. Under the current tariff setting regime, a company is able to make investments in the security of supply by improving transmission and distribution networks and storage facilities, as well as to earn a reasonable profit for its shareholders.

In the energy sector, from April 4, 2014 the third party access was introduced in accordance with the Gas Directive. The Energy Law stipulates that an operator of natural gas transmission, distribution, storage system and liquefied natural gas system shall ensure equal and open access to the relevant system by all system users and applicants who request it by providing natural gas transmission, distribution, storage services or liquefied natural gas services.

On September 10, 2015, "Regulations on the use of the joint stock company "Latvijas Gāze" natural gas transmission system" and "Regulations on the use of the joint stock company "Latvijas Gāze" Incukalns underground gas storage" were approved by the Regulator. Henceforth, the use of the natural gas transmission system and underground gas storage and allocation of available capacities will be transparent, open and will function on equal conditions. Until now, the third party access was based on bilateral agreements with JSC "Latvijas Gāze". In the second half of 2015, there was an interest from another public service provider to obtain access to the relevant system, however, there was no access till the end of 2015.

The regulations specify the conditions for the use of natural gas infrastructure, the procedure for allocating the rights to use the transmission system and available capacities of the storage, cases when the infrastructure operator may stop or limit the use of the transmission system and storage, rights and obligations of the transmission system operator and users, the procedure for the settlement of payments, and the procedure for balancing the natural gas injected into and extracted from the system.

In accordance with the regulations, information on the capacities of the transmission system and storage available in the market will be open and publicly available on JSC "Latvijas Gāze" internet homepage and will be updated regularly.

Latvia's natural gas transmission system was developed more than 40 years ago, the management and allocation of interconnection capacity and mechanisms to deal with congestion of the natural gas transmission system were developed at the time, and the following principles were the cornerstone of this process:

Natural gas is supplied to Latvia along a Latvian-Russian pipeline only during the warm period of the year (April-September), and it is accumulated in an underground gas storage facility;

During the colder part of the year, gas from the underground facility is delivered to Latvian customers, as well as supplied to Estonia, Lithuania and back to Russia;

The transmission system was designed for annual consumption of up to 4 bcm in Latvia – about three times more than the total consumption in 2015.

The natural gas transmission system is operated by the vertically integrated company JSC "Latvijas Gāze". It supplies natural gas on the basis of orders from the owners of natural gas. In 2015, about 0.8 bcm of natural gas was supplied to Russia, Estonia and Lithuania.

Latvia's natural gas supply system pipeline networks have three international connections (natural gas tracking stations); the capacity of the existing pipeline is as follows:

- cross-border connection with Russia – up to 17 million m<sup>3</sup>/day;
- cross-border connection with Estonia – up to 7 million m<sup>3</sup>/day;
- cross-border connection with Lithuania – up to 6 million m<sup>3</sup>/day.

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

In 2015, there were no overload capacities in Latvia, thus the system operator did not need to use any actions or methods that focus on power congestion management.

#### **4.1.1. The regulation of transmission and distribution companies**

These are the general regulations and basic principles for tariff calculation methodologies:

- the methodologies have been developed in conformity with the Energy Law, the Law on Regulators of Public Utilities, regulations related to the supply and use of the natural gas, as well as other legal acts which are in force in Latvia. These methodologies are applied when determining natural gas supply tariffs.
- 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 after its basic principles and specifications have been approved by the Regulator. The cost allocation model must be comprehensive.

- 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 in terms of the specific relationship between equity and borrowed capital. The rate is set so as not to affect the enterprise's choice between the use of equity and borrowed capital. At the request of an enterprise, the Regulator can set the rate of return on capital before a tariff proposal is submitted.
- in accordance with the Law on Regulators of Public Utilities, tariffs must correspond to economically justified costs. When setting the base tariff, the Regulator must perform analysis and assessment of costs and profits.

On May 18, 2015, the Regulator set a rate of return on capital of JSC "Latvijas Gāze" of 6.1%. The rate of return on capital was calculated in accordance with the natural gas transmission service tariff calculation methodology, natural gas storage service tariff calculation methodology, natural gas distribution service tariff calculation methodology and natural gas trade tariff calculation methodology. The new rate of return on capital will be in force after JSC "Latvijas Gāze" submits and the Regulator approves the new tariff methodology.

### ***Balancing***

The TSO currently conducts balancing on the basis of the consumption rate. Non-household customers are required to observe tolerance thresholds for over- and under-consumption (+/-10% on a daily basis), taking into account rules that are set out in gas supply contracts.

## **4.1.2. Effective unbundling**

The current regulatory requirement is that all regulated activities must involve unbundled accounts. The Regulator approves the cost allocation methodology that is proposed by the company, and it has the right to request an independent compliance audit. All system operators share only administrative costs.

## **4.2. Competition issues**

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

In 2015, the total Latvian natural gas market consumption was 1.318 bcm (increased by 2% compared to 2014) and 100% of that gas was imported by JSC "Latvijas Gāze" from Russia. All import operations were handled by JSC "Latvijas Gāze" on the basis of a long term supply agreement among JSC "Latvijas Gāze", "Gazprom" and "Itera-Latvija" Ltd. The Gas Directive gives Latvia the

right to derogate from specific articles of the Gas Directive and Regulation 715/2009 in whole until derogation criteria are met. Within the context of the development of the energy sector, the movement towards the liberalisation of the natural gas market must certainly be mentioned. Pursuant to the amendments to the Energy Law, requirements for the third-party access to natural gas infrastructure were stipulated and the Regulator has the obligation to approve the third party access rules developed by the natural gas system operator whose evaluation process was started in the reporting period.

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

Natural gas consumption was 1.318 bcm in 2015; natural gas was used by households, as well as for production of thermal energy and electricity.

The Latvian natural gas market structure is as follows:

- households – 119 Mcm or 9%;
- utilities and commercial companies – 132 Mcm or 10%;
- energetics – 909 Mcm or 69%;
- industry – 158 Mcm or 12%.

All customers received natural gas from the vertically integrated JSC "Latvijas Gāze".

Base tariffs at the retail level are set by the Regulator, and they are differentiated in accordance with the annual consumption level of customers.

In 2015, the Regulator received 19 consumer complaints and inquiries related to gas issues, all of them were unsubstantiated.

### **5. Security of supply**

#### **5.1. Electricity**

Total electricity consumption including losses and self-consumption in 2015 amounted to 7,420 GWh, which was 0.8% less than in 2014. Peak load in 2015 was 1,241 GW. Forecasts for the years 2016 - 2017 are as follows:

- 2016 – 1,37 GW;
- 2017 – 1,39 GW.

Currently available generation capacity is 3,002 MW.

There are 11 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 2015 covering around 99% of the whole territory of Latvia.

The total capacity of the transmission network is currently 8899.8 MVA, which is five times more than the peak load in 2015. This ensures a continuous supply of electricity.

## **5.2. Natural gas**

In 2015, the total consumption of gas in Latvia was 1.318 bcm, which was 2% more than in the previous year. Currently available technical import capacity is 3.5 - 4 bcm.

The aforementioned decrease in consumption is due to the growing use of renewable resources in district heating and power generation. However, major changes in the structure of natural gas consumption should not be expected because of the lack of major industrial customers.

JSC "Latvijas Gāze" is the only trader of natural gas in Latvia, and its exclusive licence obliges it to supply natural gas within the licensed area. At present, this refers to the whole territory of Latvia, and the public service obligation exists as long as deliveries are technologically possible and economically feasible.

## **6. 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 project design and 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 current intensity of input protection appliance is less than 40 amperes;
- the customer pays 80% and the DSO 20% if the current intensity of input protection appliance is more than 40 amperes.

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

There is an obligation to purchase electricity produced within the country in CHPPs (combined heat and power plants) or from renewable resources.

Laws have defined several tasks for a public trader, and some of them are also entrusted to 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 provide an access to customers and applicants 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 within the country in CHPP or from renewable 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 Regulation of the Cabinet of Ministers regarding Electricity Production from Renewable Energy Resources and Price calculation, accepted on March 16, 2010.

On March 10, 2009, the Cabinet of Ministers adopted the Regulation on electricity generation in CHPP, covering particular criteria and requirements which regulate mandatory procurement. This regulation contains provisions on the operating regime, the security of the supply, the efficiency, and the formula for determining the price of electricity.

The Regulator accepts the renewable energy fee and co-generation fee that should be paid by all the electricity customers proportionally to their consumption. In 2015, the amount of the electricity produced from renewable energy resources reached 36% of the total amount of electricity consumption, including hydropower plants with installed capacity more than 5 MW.

On February 26, 2014, the Regulator adopted a new Methodology on calculation of the mandatory procurement components, and in accordance with the above mentioned methodology the mandatory procurement component for the electricity produced from the renewable energy resources in 2015 was 10.1 EUR/MWh and for electricity produced in co-generation – 16.7 EUR/MWh.

### ***Protection of vulnerable customers***

In accordance with the Electricity Market Law, electricity supply to vulnerable costumers from January 1 till December 31, 2015 was ensured by JSC "Latvenergo". The electricity price is set in the Electricity Market Law. On December 17, 2015, the Ministry of Economics approved detailed rules about electricity supply to vulnerable customers. Vulnerable customers are poor or low income families (persons), large families or families which care for disabled children or persons with the first disability group.

### ***Labelling the primary energy source***

Producers which 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 November 22, 2011, the Cabinet of Ministers approved the rules for obtaining guarantees of origin for electricity produced from renewable energy sources.

### ***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 the 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 2015, 19 applications were submitted to the Regulator about the actions of the public service provider in the gas sector. One complaint was justified and two were not related to the Regulator's competence. Dispute resolution procedure was applied in two cases, one claim was rejected and the other dispute will continue in 2016. 1 administrative court procedure was completed by reaching a final court decision, 1 litigation process will continue in 2016.

In 2015, 53 applications were submitted to the Regulator about the actions of the public service provider in the electricity sector. 10 complaints were justified and 5 was not related to the Regulator's competence. Dispute resolution procedure was also applied in two cases in the electricity sector, one claim was terminated and the other was rejected.

By 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.

### ***Regulation of final customer prices***

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

Tariffs for natural gas infrastructure services and trade were approved by the Regulator in 2008. Natural gas trade tariffs are set out in tabular form and change according to the natural gas sale's price changes, which is dependent on oil product price in the stock exchange.

For the all end-users the prices are set by bilateral agreements.

The methodology for the tariff setting for the captive customers which was applicable till December 31, 2015 envisaged that the tariffs for the final customers are based on the costs of transmission, distribution and trade services plus the costs of energy. The energy costs are the sum of the purchase costs of different suppliers that includes necessary energy import costs and costs of the energy purchased from the suppliers inside the country. In the case of electricity, if market fluctuations cannot be compensated in the specified period when the tariffs were in force, the company has rights to ask for the increase/decrease of the tariffs.

The designated supplier is fully compensated for the obligation to supply electricity and natural gas under regulated tariffs.

### ***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 a regulation in which general rules on trade and supply of electricity, including main provisions and conditions of electricity supply contracts, are set out.

In this regard, national legislation in electricity sector has not changed since January 21, 2014, when the Cabinet of Ministers adopted rules on Regulations on electricity trade and use setting out one contract for household customers and conditions for the universal service.

In relation to the gas sector, the following should be noted: as the gas market opening is expected in April, 2017, in 2015 the emphasis was placed on the preparatory work towards gas market opening (exploring the necessary legal framework changes, conducting and managing research etc.). Given the significant forthcoming changes, it was not appropriate to amend the existing regulations in the reference period.