STANDARD SUMMARY PROJECT FICHE

1. Basic Information
1.1. Number: 2002/000-590-07-01
   Twinning Number: LV/2002/IB/TE-01
1.2. Title: The Public Utilities Commission
1.3. Sector: Telecommunications and Information Technologies
1.4. Location: Republic of Latvia, Ministry of Economy, The Public Utilities Commission, Brivibas 55, Riga, LV-1010, phone: (+371) 7097 200, fax: (+ 371) 7097 269, E-mail: sprk@sprk.gov.lv

2. Objectives
2.1. Overall objective:
   Ensure efficient and correct service to use the public utilities in the most economic way.

2.2. Project purpose:
   Strengthening the capacity of the Public Utilities Commission and improving the regulation of telecommunications sector.

2.3. Accession partnership and NPAA priority.
   Accession Partnership:
   *Telecommunications and information technologies:*
   Ensure alignment with the telecommunications acquis and its enforcement, including liberalisation of the telecommunication market; ensure the independence of the regulator.

   NPAA – TF code EL-003 – Improving the system of public utilities regulation

3. Description
3.1 Background and justification:
   As part of the process of economic reforms, the regulation of natural monopolies in Latvia started in the mid-1990s. This process involved setting up the Energy Regulation Council under the supervision of the Ministry of Economy. The Telecommunications Tariff Council regulated the telecommunications sector. The railway sector was regulated by the Railway Administration. The Ministry of Transport fulfilled some of the regulatory functions in the telecommunications and postal sectors.

   The regulation process of public utilities was, however, rather ineffective. Regulation functions were implemented only partially. Recognising the importance of a predictable, credible, effective and stable regulatory environment, the Latvian Authorities took the decision to form an independent, unified regulator for energy, telecommunications, post and railway sectors. A new multi-sectoral regulator – the Public Utilities Commission (PUC) – started its full-scale activities in October 2001 replacing the Energy Regulation Council and the Telecommunications Tariffs Council, taking over telecommunications and post regulatory functions. Regarding the railway sector, the PUC took over most regulatory functions from the Railway Administration of the Ministry of Transport.

   Due to the powers and responsibilities assigned to the PUC under the Law on Regulators of Public Utilities, the PUC is to elaborate secondary legislation (regulations, procedures, rules, etc.) in all the regulated sectors. In the telecommunications sector the existing acquis will be implemented with the support of the PHARE 2001 Twinning light project. In the second half of 2003 the implementation of the New Telecommunications Framework will be a priority.

   While horizontal issues for all sectors under the responsibility of this regulatory body are covered in the first component of this project, the emphasis in the second part is put on the telecommunications sector only.
The implementation of the regulation strategy for regulated sectors in accordance with the EU directives and Latvia’s legislation, as well as a transparency in the decision-making mechanism, will ensure that the Public Utilities Commission will function effectively and be beneficial to the society.

3.2 Linked activities:

3.2.1. Telecommunication Twinning Light 2001 Project
The PUC has applied for PHARE 2001 Twinning Light in the Telecommunication sector. The overall objective of the proposed project is application of *acquis* in the area of the free movement of services. The purpose of the above mentioned project is to elaborate the regulatory framework (elaborate provisions of directives which are now in force in secondary legislation issued and adopted by the Public Utilities Commission (PUC)) in the area of telecommunications.

The Phare 2001 Twinning light project will not overlap with the proposed new project because Phare 2001 project covers activities which should be implemented by Candidate countries until start of 2003, but Phare 2002 project covers activities which should be implemented only at the end of 2003.

3.2.2. Co-operation with SIDA
The PUC had submitted application for SIDA (Swedish International Development Cooperation Agency) project “Strengthening the Latvian multi-sectoral utility regulation. Twinning and training in the telecommunications and post sectors”. As part of this project in January 2002, three representatives of PUC visited Swedish National Post and Telecom Agency (NPTA). During this visit have been organised seminars on following issues: NPTA organization and independence; The Swedish telecommunications market, interconnection and mediation; Costing models; Licensing and establishment of 3G networks in Sweden; Emergency and defence planning; Radio regulations, Number portability, Consumer protection issues and Competition legislation issues.

3.2.3. Phare project “Energy Sector Restructuring”
In energy sector the Phare LE 9911.02/0001 project "Energy Sector Restructuring” among other things deals with development of secondary legislation. The PUC is utilising assistance of Phare experts operating under this project but those activities are strictly linked to energy issues. There is no overlap of "Energy Sector Restructuring” project and the proposed new project.

3.3. Results:
Twinning results

1. Transparency of decision-making process has improved, scenario approach is introduced, management and communication is based on best practice in EU, decision-making takes into account impact analysis procedures, and public awareness on regulatory issues has improved:
   - EU best practice concerning regulators suitable for Latvian PUC is selected and described in project report;
   - Scenario on the development of PUC is prepared, practical suggestions on improvement of management transparency and decision-making process are described in project report;
   - Action plan on informing and educating society on regulatory issues, improving PUC credibility is prepared;
   - General model for decision-making impact assessment analysis is prepared and documented (manual).

2. Requirements of New Regulatory Framework in telecommunications are introduced in legislation, PUC is capable of fulfilling them, and competition in the telecommunications market is ensured:
   - Requirements of the New Telecommunications Framework are identified and reported; the necessary amendments to legal acts are prepared;
   - Report on improvement of professional independence of the regulator is prepared taking into account evaluation of staff’s knowledge, skills and recent training;
- Report on operation of liberalised telecommunications market is prepared containing proposals for safeguarding competition.

3.4. Activities:

3.4.1 PUC strengthening and improvement of decision-making

Besides the general duties, PAA should actively participate in all the activities of Component 1. Therefore the PAA should have at least 5 years of experience in a regulatory body, preferably have experience in setting-up or strengthening a regulatory body, have good understanding of general problems of candidate/transition countries, and be fluent in English. Duration of stay for PAA is 12 man-months.

3.4.1.1 Review of regulatory best practice and settlement of dispute cases in EU.

Organisation of a workshop on best practice of regulation regarding due process, public announcements, involvement of market participants, as well as approaches to dispute settlement both among market participants and between market participants and the regulator. Requires 1 short-term EU expert for 2 months. Expert should have at least 8 years of experience in a regulatory body, preferably with knowledge of the regulatory environment in more than one member state, and be fluent in English.

3.4.1.2 Strengthening transparency of management and decision-making process.

After completion of best practice review, prepare a scenario (business plan) of possible development of the operating environment and available means for responding to these developments, work on improving internal management procedures, defining transparency requirements for decision-making process, re-considering existing arrangements for hearings and announcements. Requires 1 short-term EU expert for 3 months. Expert should have at least 5 years of experience in the respective field, possess knowledge of the working specifics of a regulatory body, and be fluent in English.

3.4.1.3 Activities for informing and educating society on regulatory issues, improving credibility.

Based on best practice review results identify fields where public awareness on regulatory issues is low and prepare action plan to overcome these weaknesses. Prepare 3 leaflets and organise a seminar to explain relevant issues, e.g. consumer rights, quality standards, complaint procedures, answers to frequently asked questions, benefits of competition in certain market segments, etc. Requires 1 short-term EU expert for 4 months. Expert should have at least 5 years of experience in the respective field, preferably having experience in projects or positions related to credibility building, and be fluent in English.

3.4.1.4 Impact assessment analysis’ principles in the process of decision-making.

Develop general model for impact assessment for regulatory framework in Latvia. Organise one workshop to discuss possible approaches for analysis, formulate principles relevant for decision making process. Prepare brief manual on impact assessment analysis principles. Requires 1 short-term EU expert for 3 months. Expert should have at least 5 years of experience in the respective field and be fluent in English.

3.4.2 Telecommunications sector

3.4.2.1 Review legislation in telecommunications in connection to the New Telecommunications Framework, elaborate corresponding amendments to the legal acts.

When first results are available on implementation of the New Telecommunications Framework in member states, transfer applicable experience to Latvia to bring legislation in tact with the new requirements. Requires 1 short-term EU expert for 4 months and 2 local short-term experts for 3 months each. EU expert should have at least 5 years of experience in the respective field, be familiar with community legislation, and be fluent in English.
3.4.2.2 Re-evaluate and strengthen the professional independence of PUC in relation to the new requirements contained in the New Telecommunications Framework.

In relation to the harmonisation of the national legislation, evaluate new tasks of the regulator stemming from the New Telecommunications Framework. Assess professional capacity of PUC staff concerning performing these new duties. Make suggestions on possible training needs and revised internal structure of PUC to secure the necessary professional independence. Requires 1 short-term EU expert for 2 months. Expert should have at least 5 years of experience in the respective field, preferably having experience in functional audit, and be fluent in English.

3.4.2.3 Upgrade competitive safeguards in telecommunications to prevent the incumbent operators from engaging in anti–competitive activities.

Assess operation of the liberalised telecommunications market, propose safeguards for strengthening competitiveness, and update relevant secondary legislation. Prepare the report on these issues, requires 1 short-term EU expert for 2 months. Expert should have at least 3 years of experience in the respective field, and be fluent in English.

3.5. Lessons learned:

In line with suggestions of Phare programming mission (Riga, 19-20 March, 2002), activities concerning strengthening the regulatory environment in the field of energy are not included in this project.

Due to comparatively modest challenges in harmonising the railway sector and taking into account the suggestions of Phare programming mission, activities concerning railway sector are no longer included in this project.

The proposal of Phare programming mission to have a scenario for analysis of PUC needs is appreciated and included in activity 3.4.1.2.

4. Institutional Framework

The main project beneficiary and responsible institution is The Public Utilities Commission. The PUC was formed to cover four sectors: telecommunications, energy (including gas) postal and railway. PUC is an independent public institution operating according to the Law on Regulators of Public Utilities. The decision taking body of PUC is the Council, which consists of five Commissioners. The Commissioners are appointed by the Parliament for a fixed term of five years. An Executive Body of PUC is headed by the Executive Director. The Executive Body consists of six separate departments, which perform the management and control of each sector: Energy Department, Telecommunications and Postal Department, Railway Transportation Department, Economic Analysis Department, Legal Department and Administrative Department (organisational structure of the Public Utilities Commission is shown in Annex).

According to the Law on Regulators of Public Utilities, PUC operates independently and autonomously in performing its functions, in taking decisions and issuing administrative instruments in order to safeguard the interests of the users and to enhance development of the public services’ providers in accordance with the principles of justice, transparency, neutrality, equality and proportionality. The strategic goals of the PUC are to protect consumer interests, to promote both competition and investment-driven development. According to the Law on Regulators of Public Utilities, all decisions of the PUC can be appealed only in Court. For reasons of compliance with the administrative structure of the government, the PUC is formally supervised by the Ministry of Economy. However the Law on Regulators of Public Utilities actually rules out any possibility for the ministry to influence PUC.

In performing its daily functions, PUC co-operates also with different state and other institutions. PUC has had successful co-operation with the Union of Local and Regional Governments of Latvia, Competition Council, Ministry of Economy, Ministry of Transport, Ministry of Foreign Affairs.
5. Detailed Budget

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6. Implementation Arrangements

6.1. Implementing Agency:

PAO: Ministry of Finance, State Secretary Mrs. Valentina Andrejeva
Smilsu 1, Riga, Latvia LV – 1050; phone +371 7226672, fax +371 7095503

CFCU: Director Mr. Armands Eberhards
Smilsu 1, Riga, Latvia LV – 1050; phone +371 7094342, fax +371 7094348

SPO for the sector at the Ministry of Economy: Deputy State Secretary Mrs. I. Preimate
Brivibas 55, Riga, Latvia LV – 1010; phone +371 7013106, fax +371 7013

Beneficiary: The Public Utilities Commission, Riga, Brivibas Str.55, phone +371 7097 200, fax +371 7097 269
Contact person – Chair of the Public Utilities Regulatory Commission Mrs. Inna Šteinbuka, phone +371 7097200, e-mail: inna.steinbuka@sprk.gov.lv

6.2. Twinning
The PUC and the twinning partner will be jointly responsible for the overall output (guaranteed result) and the inputs necessary to achieve results.

Beneficiary institution – the Public Utilities Commission, Riga, Brivibas Str.55, phone +371 7097 200, fax +371 7097 269
Contact person for PAA – Chair of the Public Utilities Regulatory Commission Mrs. Inna Šteinbuka, phone +371 7097200, e-mail: inna.steinbuka@sprk.gov.lv

Contact person for twinning experts – Chair of the Public Utilities Regulatory Commission Mrs. Inna Šteinbuka, phone +371 7097200, e-mail: inna.steinbuka@sprk.gov.lv

6.3. Non-standard aspects
No non-standard aspects arrangements foreseen. DIS Manual and Practical Guide of PHARE, ISPA and SAPARD project procedures will be strictly followed.

6.4. Contracts
1 Twinning covenant – 504 000 €

7. Implementation Schedule

7.1. Start of tendering/call for proposals
Twinning covenant - January 2003
7.2. Start of project activity:
   Twinning covenant - July 2003

7.3. Project Completion
   Project duration 12 months
   Project Completion - July 2004

8. Equal Opportunity
When recruiting, promoting and rotating their employees, public institutions in Latvia (including inter alia PUC) take into account professional qualification, level of competence, correspondence to the job description, performance and like factors, not their age, sex, or nationality. Currently PUC consists of 59 (37 women and 22 men) employees. Both men and women, who are employed in the PUC, are highly experienced in their specific issues. The non-discrimination of participants during the project is justified by their professionalism.

9. Environment
   Not applicable.

10. Rates of return
    Not applicable.

11. Investment criteria
    Not applicable.

12. Conditionality and sequencing.
   1) Conditionality:
      - Sufficient resources allocated in PUC budget for contribution to the project.

   2) Sequencing:
      - Activities 3.4.1.2 and 3.4.1.3 are dependent on 3.4.1.1 and should start after completion of 3.4.1.1; activity 3.4.2.2 is dependent on 3.4.2.1 and should start after completion of 3.4.2.1.

ANNEXES TO PROJECT FICHE

ANNEX 1 – Logical framework matrix in standard format
ANNEX 2 – Detailed Implementation Chart
ANNEX 3 – Cumulative Contracting and Disbursement Schedule
ANNEX 4 – PUC’s institutional framework
ANNEX 5 – Public Utilities Regulation Charter
ANNEX 6 – Strategy of PUC
## STRENGTHENING OF THE PUBLIC UTILITIES COMMISSION

**Phare log frame**

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR PROJECT</th>
<th>Programme name and number</th>
</tr>
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<tbody>
<tr>
<td>the Public Utilities Commission</td>
<td></td>
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<tr>
<td></td>
<td>Contracting period expires</td>
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<td>Total budget: 560,000</td>
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### Overall objective

Ensure efficient and correct service to use the public utilities in most economic way

- PUC operates at “an arm’s length” distance from government, regulated utilities and consumers; The decisions of PUC are in conformity with EU directives and Latvian legal acts and promote competitiveness and development of the economy.

**Sources of Verification**

- PUC annual report
- European Commission Regular Report
- Report on Economic Development of Latvia, Ministry of Economy

### Project purpose

Strengthening the capacity of the Public Utilities Commission and improving the regulation of telecommunications sector.

- Internal procedures are aligned with best practice in EU, obligations defined in acquis are fulfilled.

**Sources of Verification**

- PUC annual report
- European Commission Regular Report
- Report on Economic Development of Latvia, Ministry of Economy

### Results

1. Transparency of decision-making process has improved, scenario approach is introduced, management and communication is based on best practice in EU, decision-making takes into account impact analysis procedures, and public awareness on regulatory issues has improved.
   - New decision making procedures adopted;
   - Scenario approach and impact analysis used and properly documented;
   - Legislation in telecommunications is aligned with the New Telecommunications Framework;
   - Competitive safeguards in telecommunications market prevent incumbent from engaging in anti-competitive activities

2. Requirements of New Regulatory Framework in telecommunications are introduced in legislation, PUC is capable of fulfilling them, and competitiveness of telecommunications market is ensured.
   - reports on organised workshops and seminars;
   - materials for presentation at the seminars and workshops;
   - Project reports;
   - manuals;
   - PUC internal procedures;
   - PUC annual report.

**Sources of Verification**

- reports on organised workshops and seminars;
- materials for presentation at the seminars and workshops;
- Project reports;
- manuals;
- PUC internal procedures;
- PUC annual report.

**Assumptions**

- The institutional shape of Public Utilities Commission and its relations with other institutions are stable;
- related legal acts are adopted in a timely manner by the Parliament and the Cabinet of Ministers.
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
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</table>
| - Project management and co-ordination in the location of beneficiary  
- Review of regulatory best practice and settlement of dispute cases in EU.  
- Strengthening transparency of management and decision-making process.  
- Activities for informing and educating society on regulatory issues, improving credibility.  
- Impact assessment analysis’ principles in the process of decision-making.  
- Review legislation in telecommunications in connection to the New Telecommunications Framework, elaborate corresponding amendments to the legal acts.  
- Re-evaluate and strengthen the professional independence of PUC in relation to the new requirements contained in the New Telecommunications Framework.  
- Upgrade competitive safeguards in telecommunications to prevent the incumbent operators from engaging in anti-competitive activities. | - PAA: 12 months  
- 1 EU short-term expert: 2 months workshop, study visit  
- 1 EU short term expert: 3 months  
- 1 EU short term expert: 4 months seminar, 3 leaflets  
- 1 EU short term expert: 3 months workshop  
- 1 EU short term expert: 4 months  
2 local experts: 3 months each  
- 1 EU short term expert: 2 months  
- 1 EU short term expert: 2 months | - Project reports;  
- PUC annual report  
- Regulation Charter approved by the Cabinet of Ministers;  
- timely approval of the project to fit the need for preparation of amendments to secondary legislation. |

**PRECONDITIONS**
Sufficient resources allocated in PUC budget for contribution to the project
## Annex 2 – Detailed Implementation Chart

<table>
<thead>
<tr>
<th>Component 1 - PUC strengthening and improvement of decision-making</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
<td>Review of regulatory best practice and settlement of dispute cases in EU.</td>
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<tr>
<td>Strengthening transparency of management and decision–making process.</td>
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<tr>
<td>Activities for informing and educating society on regulatory issues, improving credibility.</td>
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<tr>
<td>Impact assessment analysis’ principles in the process of decision–making.</td>
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<thead>
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<th>Component 2 - Telecommunications sector</th>
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<td>X X X X</td>
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<tr>
<td>Re-evaluate the professional independence of PUC in relation to the new requirements contained in the New Telecommunications Framework</td>
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<td>X X</td>
</tr>
<tr>
<td>Upgrade competitive safeguards in telecommunications to prevent the incumbent operators from engaging in anti–competitive activities.</td>
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<td>X X</td>
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## Annex 3 – Cumulative Contracting and Disbursement Schedule (EUR)

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<th>Time period</th>
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Annex 4 – Institutional Framework of Public Utilities Commission
PUBLIC UTILITIES REGULATION CHARter

1. The goal of public utilities\(^1\) regulation at state level is to promote growth of national economy and its competitiveness, as well as to enhance well-being of each person and the society as a whole. Basic tasks for attainment of this goal are provision of:
   - access to qualitative services in the entire territory of the state at economically reasonable prices;
   - choice opportunities for the users;
   - investment-based growth and reasonable profit for the service providers.

2. The role and GDP share of public utilities are constantly growing.\(^2\) Recently the rise of the regulated services’ tariffs has been one of the main causes for growing inflation in Latvia, hence growing economic efficiency of the respective sectors is a prerequisite for a balanced development of the state and the society. Competition in the provision of services forms the basis and is the most important tool for achieving effective operation of services providers, for lower prices and higher service quality.

3. Currently public utilities in Latvia are mainly provided by historic natural monopolies which operate with insufficient efficiency, while the ratio of service quality and price is not satisfactory and does not meet country’s economic and social needs. As one of the measures to improve the situation, a unified multi-sector utilities regulatory system has been created. This Charter sets forth the long-term strategy and methodology required for successful functioning of the system and attainment of the established goals.\(^3\)

4. Latvia has not accumulated sufficient experience in the regulation of public utilities. Therefore there is a certain risk that shortsighted political decisions may have an adverse effect upon the long-term investment decisions. Decision making in the conditions of asymmetric information\(^4\) may lead to erroneous solutions and a considerable economic damage. Insufficient transparency and predictability of the regulatory institutions\(^5\) and unjustified “over-regulation” may cause distrust of the service providers and the public in the regulatory system. These and similar existing risk factors should be minimized in the course of strategy implementation.

5. As a result of converging technologies and services, capital mobility and formation of multi-sector utilities, individual sectors can no longer be considered isolated. This provides new opportunities and sets new tasks for regulation which should become uniform and harmonized in all sectors of public utilities.\(^6\)

6. The service providers and respective service networks are internationally integrated. Due to free capital flows interconnection of global technologies and markets is becoming stronger and stronger. That is why the national regulatory

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\(^1\) For the purpose of this Charter, public utilities refers to supply of electric power, gas, heat and water, collection of sewage and waste, telecommunication and data transmission, postal, railway transportation and passenger transportation services.

\(^2\) According to the data of the Central Statistical Bureau, the total GDP share of the added value produced by the regulated sectors was 9.0% in 1998, 9.2% in 1999 and 9.5% in 2000.

\(^3\) A long-term strategy implies a set and sequence of activities needed in the process of attainment of established goals and objectives in the coming 15-20 years, period which corresponds to the time of reasonable return of the funds invested in the infrastructure of the utilities network. Methodology means the instruments and measures applied in the execution of strategic activities.

\(^4\) Service provider always has more complete and accurate information regarding expenses, investment and business plans, operation of related companies, etc, than the regulatory institutions and other bodies.

\(^5\) Regulatory institutions stand for the Public Utilities Commission (hereinafter the Regulator) and the municipal regulatory institutions.

\(^6\) Uniform and harmonized regulation stands for principles, strategy, methodology and core regulatory mechanisms that are uniform for all sectors. Upon applying approved regulatory instruments (or mechanisms) and procedures, peculiarities of each sector are taken into account when appropriate regulation policies, schedules, numerical proportions etc. are selected.
The advantages of the new unified multi-sector regulatory model can be fully utilized in the interests of the users and service providers in Latvia. For integrity purposes, both the Regulator and the municipal regulation institutions should be included in the regulation process. In the future, the Regulator should methodologically provide guidance of the municipal regulatory bodies.

Due to the peculiarities of the public service delivery\(^7\), the degree of sector monopolization is quite high; this calls for the implementation of special measures to promote competition. However it cannot be accomplished by the regulatory system alone. Alongside with the formation of a contemporary regulation system with a balanced approach to both the users and the service providers, a complex reform of the regulated sectors should be carried out, including restructuring\(^8\) and privatization of vertically integrated natural monopolies. Restructuring will enable diversification and optimization of the methods for promoting competition. Privatization of the companies will enable improved performance efficiency by separating the functions of legislator, owner and service provider presently accumulated by the state in many public utilities companies, and simultaneously establishing the rights for the state to interfere in the operation of the companies.

The priority for Government is building a clear and stable legislative environment, ensuring responsible and predictable operation of the Regulator while preserving space for tactical maneuvering in the implementation of the state strategy. Mutual compatibility of the general and sector legislation as well as other legal provisions should ensure applicability of the uniformity principle in all the regulated sectors. The Government will avoid making decisions that could suddenly and unpredictably modify business environment in the regulated sectors.

Policies of a long-term sustainable development\(^9\) of the regulated sectors (sector policies) should be prepared and updated on a regular basis in compliance with the long-term economic strategy of Latvia. The goals for the development of different public utilities sectors, instruments and sequence of their attainment and competition promotion activities need to be explicitly defined based on the national security, economic, social and ecological criteria. Provisions of the national policy regarding restructuring, privatization and implementation of socially sensitive and costly tasks of ecology and health care should be incorporated into the sector policies.

To ensure fair, credible and consistent regulation, the principle of equal distance (arms-length) from all involved parties should be strengthened, such parties being the Government, service providers and the users. The Regulator should form and maintain continuous, stable and transparent co-operation procedures with all parties involved in the regulatory process.

Independence of the Regulator should be further improved by strengthening its capacity and resistance to external pressures. Such autonomy of the Regulator from the public administration institutions should be secured in the Constitution (Satversme). It is also necessary to enhance legislative initiative of the Regulator, provide for its complete financial independence and ensure participation of Regulator’s representative at the Cabinet of Ministers sessions.

For the long-term operational stability and predictability of the Regulator the relationships with the Government are particularly significant. Short-term political processes and the interests of individual political actors must not exert any impact on the economic principles and procedures of utilities regulation as that could increase regulation risks, adversely affecting investment and business environment and overall credibility of the state. In order to promote the Regulator’s independence and successful operation, long-term mutual co-operation principles of the Regulator and the Government must be explicitly defined, providing for determination and formulation of conceptual and methodological guidelines of the regulation process, consistent approach to the competition and regulation activities, and improvement of the legislative environment. By defining the duties and responsibilities and their distribution as well as eliminating function doubling, procedures for Regulator’s co-operation with ministries, Competition Council, the Center for Consumer Rights Protection and other public institutions should be worked out.

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\(^7\) Public services are delivered to the consumers (users) through network infrastructure for which typical are large investments and long return periods. There is no economic justification for dubbing of this infrastructure, particularly the consumer access network.

\(^8\) Restructuring means unbundling of the companies into several legal entities separating various components (production, transmission, distribution, sales, etc.) of the service delivery process.

\(^9\) For the purpose of this context sustainable and sustainability mean a reliable and stable long-term access to services. It can be achieved by effective use of non-reproductive resources, conservation of nature, regular adequate investments in the service delivery network, etc.
14. Protection of the rights of the consumers is one of the core functions of the Regulator, and it retains its significance at any stage of liberalization in the public utilities market. The Regulator should guarantee service accessibility and opportunity of choice to all users, correspondence of the prices and tariffs to the overall economic situation in the country and to the quality of the delivered services, safety and stability of service delivery in the long term. Consultative consumer institutions should be established for the purpose of involving users’ representatives (individuals and companies) in the decision-making process of the Regulator in order to formulate a uniform approach. Specific activities for support of the consumer rights should be implemented in all public utilities sectors:

- availability of several service basket options including services of diverse quality and volume;
- provision of various payment systems, including pre-payment option;
- introduction of a “soft” disconnection procedure for the debtors;
- strict protection of the personal data and information on services delivered.

15. Users complaints should be reviewed in a uniform and non-discriminatory procedure. Uniformity in this context means that the same principles are applied not only in all sectors of public utilities but also among all service providers, the Center for Consumer Rights Protection and the Regulator, the principle of “one stop agency” for consumer.

16. Another essential function of the Regulator is promotion of sustainable growth and efficiency of the utilities companies and reduction of investment risk factors. The councils of service providers should be established for cooperation and consultation with the Regulator. Such activities will increase mutual trust, improve exchange of information, enhance predictability and economic validity of the Regulator’s decisions, improve business environment, ensure profitability of service providers consistent with the existing economic situation and promote investments in order to minimize the consumers’ risk to receive low-quality services at high prices. Regulator’s relationships with monopolies deserves particular attention and requires elaboration of explicit partnership principles, ruling out eventual impact of the interests of a historical monopoly or dominating service provider upon the Regulator’s decisions as well as supporting entry of competitors in the market.

17. Service quality standards have to be elaborated, and continuous improvement of the service quality, including parameters for measuring and assessing of service quality, should be pursued. The Regulator should have to pay particular attention to the supervision of service quality for monopoly and dominant service provider. Deterioration of service quality should not be permissible, regardless of financial problems or pursuit of a larger profit of the service provider. Compensation procedures for users should be established in cases of undelivered or sub-standard quality services.

18. All public services are related to the environment. Service quality has a direct impact on the health and even survival of the present and future generations, and this impact should be taken into account when national economic and sector policies are worked out. Ecological and health care issues should not be seen as of low importance. Reasonable standards for ecological and health protection in relation to public service delivery should be regarded as a component of the overall national environmental and health policy. Corresponding financing should be foreseen in national programs, sector policy documents and regulated tariff calculation methodology, specifying the amount of such financing to be in line with the existing situation. At the same time, specifically emphasized “green services” should not distort the overall market of service delivery, and their support should be organized via an alternative basket of services.

19. A long-term national public utilities tariff policy should be formulated. The state subsidy policy for some types of utilities should not depend on the form of ownership, avoiding any preferential treatment for different providers of the same services. Pegging of the tariffs upon costs of other sectors, user equipment sales prices or other conditions and restrictions is not permissible, regardless of financial problems or pursuit of a larger profit of the service provider. Compensation procedures for users should be established in cases of undelivered or sub-standard quality services.

10 In the context of this Charter “soft” disconnection implies a gradual modification of contract terms and conditions for the users in the event of bill payment failure with the provision of services in reduced volume and quality, pre-payment and other measures, including also discharge of arrears.

11 For the purpose of this Charter “green services” are services with a particular focus on ecology that considerably increases service costs, e.g., electricity generation by means of wind or other ecologically friendly energy resources at an increased purchase price, additionally treated water supplies, etc.
20. A uniform long-term tariff determination methodology should be applied to all types of public services, thus guarantying predictable and economically reasonable service prices as well as encouraging innovative operation and efficiency growth of the service providers, hence also strengthening sustainable access to services. Tariff policy should promote:

- fair distribution among the service providers and users of gains resulting from higher efficiency and growth of companies;
- availability of all public services for the same category of users\(^\text{12}\) at the same fair and economically reasonable price across the entire territory of the country;
- balance of the short-term interests of the users and long-term investment programs of the companies; incorporation into tariffs of the financing required for renovation and growth of infrastructure, innovation and technological progress.

21. In all public utilities sectors the principle of the universal service\(^\text{13}\) should be implemented as an instrument to ensure service availability across the country by including this principle into the sector policies and legislation. The set of the universal service, sources and principles of financing should be defined for each sector. State subsidies to finance the delivery of the universal service should be foreseen in addition to the service providers’ financing.

22. Unbundling of the users’ access network\(^\text{14}\) should be treated as an important instrument for enhancing competition and offering choice options to the user. Incorporation of access network unbundling principles into sector policies and legislation as well as increased infrastructure development standards for utilities providers having significant market power are likely to minimize overall access network costs and hence also the service tariffs.

23. Trust of the public and investors in the Regulator should be deemed the core asset of the Regulator and a vitally important prerequisite in the implementation of the Charter. Intellectual potential and competence of the Regulator should be continuously expanded and the model of knowledge management should be improved. Growing regulatory quality and a balanced long-term development of the process will be encouraged by periodical performance reports by the Regulator and accessibility of such information to the public, investors and the government, uninterrupted dialogue with the service providers and the society, operational transparency and openness of the decision making process.

\(^{12}\) Same category users denote a specific group of users to which the same service tariff applies, e.g., individuals or legal persons, consumers of the same volume and quality services, etc.

\(^{13}\) Universal service should be a set of defined services of a definite quality uninterruptedly accessible to all users across the country at an economically affordable price.

\(^{14}\) Unbundling of the users’ access network means granting each service provider the entitlement to lease out access networks from the service provider having significant market power.
Strategy and Basic Principles of Operation of Public Utilities Commission

1. Public Utilities Commission (hereinafter the Regulator) considers public services\(^\text{15}\) to be necessary products for population and regulation is a precondition for country’s economic growth and increasing competitiveness. The **goal of the Regulator is to ensure that consumers can receive high-quality services at reasonable prices, and additionally to stimulate effective operation of the service providers and ensure a reasonable profit.** For this purpose the Regulator shall create a safe and stable environment for public service regulation, which is fair towards service providers and consumers. The Regulator regards the trust of the society and service providers as its main asset and principally necessary precondition for successful work.

2. To achieve the above-mentioned goal **the Regulator shall form an independent, credible and fair model of public service regulation in Latvia**, which is characterized by:
   - availability of services across the country without consumer discrimination;
   - competition among service providers and possibility to choose for consumers;
   - continuously increasing quality of the services;
   - price and tariff setting methodology for consumers, determining reasonable prices that correspond to the service quality;
   - investment return principles that minimize investors’ risk;
   - defined and evolved procedures for consumer protection;
   - ethical operation principles of the Regulator – consistency, predictability, fairness, responsibility, transparency.

3. The Regulator during its operation **will fully realize the advantages of multi-sector public service regulation system formed in Latvia**, implementing uniform regulatory principles for all sectors, including:
   - coordinated regulation for all public service sectors which is predictable for consumers and service providers;
   - introduction and implementation of coordinated sector development and competition indicator system;
   - use of proven regulation principles and instruments in all service sectors\(^\text{16}\), noting peculiarities of separate sectors;
   - provision of uniform approach to multi-sector service providers, at the same time paying increased attention to possible violations of competition rules in connection with activities of multi-sector and interconnected companies.

4. For the implementation of the model **it is necessary to minimize the risk factors connected with the Regulator’s operation.** Understanding and support from the society will be achieved through transparency of decision preparation and decision making process, openness of regulatory actions and procedures, explanation of the adopted decisions. The Regulator shall avoid excessive overregulation, antagonistic style of operation, conflicts with service providers, which would worsen the whole business environment in the country. The intellectual potential and capacity of the Regulator shall be strengthened by involving independent experts, thus promoting adequate decision making.

5. One of the main tasks of the Regulator to achieve the set goals is to promote the currently restricted competition\(^\text{17}\) according to the long-term sector policies accepted by the government. Competition will stimulate the service providers to operate with maximum efficiency and ensure

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\(^{15}\) In the context of this document public utilities whose regulation falls under competence of the Regulator are electricity supply, gas supply, centralized heating, telecommunications and data transmission, postal service, rail and passenger transportation; the concept also includes the delivered product – electricity, gas, information, etc.

\(^{16}\) For example, universal service, unbundling of consumer access network, tariff calculation methodology, prepayment, ‘soft’ disconnection procedure for debtors, etc.

\(^{17}\) Due to objective reasons the market in public service sectors will never be perfectly competitive – the required large investment hinders entry of new competitors in the market, the range of offered services by service providers is not homogeneous (especially for services with high value added), specific infrastructure costs do not actually diminish with the increase of market share, etc.
alternative choices for consumers, lower prices and higher quality of services. The Regulator shall directly intervene in the service provision process only where competition is limited. The Regulator shall cooperate with the Competition Council on a regular basis.

6. **Stimulating entry of new service providers in the market is a significant function of the Regulator**, especially in the saturated sectors of the service market. For this purpose the Regulator shall:
   - promote awareness of the society and understanding about the development of competition in the corresponding sector;
   - prevent possible preemptive actions by existing market participants which are directed against entry of new market participants;
   - follow full scale implementation of collective usage regulations (resource allocation, unbundling, interconnections, etc.) by service providers with significant market power;
   - promote the use of the account settlement systems of service providers with significant market power to settle accounts for newcomer services.

7. During the liberalization process of public service sectors the Regulator’s tasks as a whole will remain unchanged, but action priorities and significance will alter depending on the degree of market liberalization. **Sector deregulation will be implemented as transition from direct monopoly regulation to indirect sector regulation with the development of competition**, not decreasing Regulator’s attention to the sectors in which the market is formally liberalized:
   - in monopoly regulation the main tasks are the determination of prices and tariffs and/or their calculation methodology, prevention of broadening of monopoly rights, as well as consumer protection from monopolistic abuse;
   - after formal liberalization of the market when the monopolist becomes the dominant service provider, the main task is to promote entry of new competitors into the market;
   - as the market develops, it is necessary to determine service providers with significant market power in a given sector according to defined procedures based on such criteria as sufficient market segment, ability to operate independently from other service providers, ability to affect competition development processes etc.;
   - under conditions of well-established competition the main functions shall be monitoring of compliance with licenses, quality standards and competition rules, connection of infrastructure networks, arbitrator functions in case of disputes, social, environmental and health protection measures.

8. In order to ensure stable availability of public services in the long term, the Regulator shall implement fair regulation, observing interests of both the consumers and the service providers. For this purpose a **regular cooperation of the Regulator with all the stakeholders is necessary, observing the principle of arms-length distance** in order to build and strengthen credibility of all parties.

9. **Public service regulation shall become directed towards the consumer**, by balancing short-term interests of the population with the interests of the qualified consumers and sustainability of the operation of service sectors. The Regulator in its relations with consumers shall provide openness and transparency, predictability and consistency of decisions, publicizing all the adopted decisions. For consumer participation in preparation of decisions consumer sector advisory institutions shall be formed comprising representatives from companies and different groups of the population. At the same time the Regulator should not surrender to the consumer pressure, by taking inadequate, populist decisions ignoring general state interests.

10. **Protection of consumer rights is a significant function of the Regulator.** The Regulator shall work out and implement nondiscriminatory procedures for the review of consumer complaints, and together with Consumer Rights’ Protection Centre shall develop uniform approach and activities. Service providers’ licenses will contain stipulations for the provision of consumer rights and choices, including:
   - services of different quality and volume;

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18 Saturated market sector in the context of this document means that practically all potential consumers of the services already receive services from the existing market participants. Newcomers can develop only by redistributing the market, ‘luring’ customers by offering wider range of services, higher quality, lower prices, etc.

19 For example, emergence of new technologies, unsuccessful operation of companies or company merging can renew the dominant status of some market participants.

20 Including collective significant market power if several service providers are mutually economically connected and dependent on one another in their actions.
• several service tariff systems options;
• several payment systems options;
• ‘soft’ disconnection procedure\(^\text{21}\) of debtors.

11. **During the process of decision preparation and adoption the Regulator will consult service providers**, creating predictable attitude towards companies and decreasing regulation risk, motivating companies to provide full information, reducing the possibility of conflicts among service providers, as well as between service providers and the Regulator. The Regulator shall work out clear principles for cooperation with the dominant service providers, at the same time not permitting the Regulator to act in their interests.

12. **Ensuring service quality, its constant improvement is one of the core functions of the Regulator.** In order to implement it the Regulator shall supervise the development of national standards and adaptation of international standards in public service sectors, carry out monitoring of standard observance, develop and utilize uniform criteria for monitoring and assessment of service quality. The Regulator shall avert the possibility for the service providers to decrease system safety and service quality in order to achieve higher profits. Compensation procedures will be determined for consumers in case they do not receive services or receive substandard services.

13. **The Regulator shall form stable, balanced long-term relationship with the government,** which shall not depend on short-term political processes, hence preventing the interference of the government in daily regulation issues and decreasing political risk. The Regulator shall actively initialize the necessary legislative amendments.

14. The Regulator shall implement such **pricing and tariff policy which will promote fair distribution of benefits between service providers and consumers**\(^\text{22}\). Policy formation and implementation involves selection and development of tariff calculation methodology, including definition of the process and procedures. To stimulate continuous growth of efficiency of the service providers, the methodology will provide:

• predictable economically justified changes of tariffs according to methodology;
• reasonable choice between setting the tariffs for separate services and for tariff basket;
• definition of tariff components, including principles of total expenditure division among different services, inclusion of investment, innovation, ecological and health care measures in tariffs, restriction of administrative expenses in monopoly prices, etc.;
• prevention of service providers’ cross-subsidies\(^\text{23}\) and activities to hinder competition;
• tariff correction in case unpredictable factors emerge\(^\text{24}\).

15. **Universal Service principle shall be regarded as a real instrument for the provision of services across the whole country.** The Regulator shall work out and determine the methodology for the Universal Service provision taking into account sector peculiarities. The provision of the Universal Service shall be implemented as a mandatory obligation for service providers with significant market power, including this condition in the license as well as letting every service provider to participate voluntarily (through auction). The Regulator shall determine the set of universal services for each sector, as well as uniform sources and principles of financing\(^\text{25}\) for Universal Service.

16. **Connection of infrastructure networks, common use of networks and unbundling of consumer access network**\(^\text{26}\) promote competition and choice opportunities for consumers, simultaneously

\(^{21}\) ‘Soft’ disconnection in the context of this document implies gradual change of consumer contract terms if the consumer does not pay for the service, providing supply of services of reduced volume and quality, prepayment and other measures, including debt settlement procedure.

\(^{22}\) In the context of this document – profit growth of service providers simultaneously with service quality increase and price/tariff decrease.

\(^{23}\) Including cross-subsidies between monopoly services and free market services, as well as between services of different sectors in multi-sector companies.

\(^{24}\) For instance, passing of new legislation, emergence of new revolutionary technology, setting new prices for products supplied from other countries (for example, electricity, gas), discovery of use of incomplete, incorrect or misleading information for methodology determination, etc.

\(^{25}\) Universal Service can be financed either by service providers (using payments by all customers or only by business customers) or the state (budget and/or revenues from license auctions, fines on service providers, etc.) or combining both sources.

\(^{26}\) Costs of consumer access network constitute up to 60-70\% of total infrastructure costs, moreover costs of separate consumer access network do not diminish with the increased number of consumers.
decreasing service costs. Mandatory stipulations for interconnection\textsuperscript{27} and unbundling of access network will be included in licenses for service providers with significant market power. The Regulator will design collective usage methodology of infrastructure networks, as well as a set of measures for the implementation of the methodology, including a requirement for service providers with significant market power to increase the capacity of their infrastructure dedicated for lease.

\textbf{17. Issuing licenses is a significant instrument of the Regulator in regulating the structure of public utilities market.} Investigation of service providers will be carried out before the issue of licenses and supervision afterwards. The Regulator shall work out and determine uniform principles, procedures and terms of license issuance and/or extension. Service providers’ licenses will contain:

- criteria, phases and terms of infrastructure development;
- measures for provision of consumer rights and choice;
- stipulations for usage of limited national resources;
- stipulations for increasing service quality and system safety;
- stipulations for the review of consumer complaints;
- compensation procedures in case consumers do not receive services or receive substandard services;
- measures for environmental and health protection;
- sanctions for license violations.

\textbf{18. In order to carry out all the activities the Regulator requires adequate resources, the most important part of which is the Regulator’s intellectual potential} and capacity for preparation and adoption of decisions, analytical work, decision implementation. The Regulator’s knowledge management model shall be developed and implemented, including personal knowledge of employees, flows of the Regulator’s internal knowledge and external links. The competence level of the members of the Regulator’s Board is especially important because they will themselves continuously participate in the preparation process of strategic decisions of the Regulator. Knowledge potential will be increased through regular training of employees, participation in conferences, active international contacts. Involvement of independent external experts, formation of \textit{ad hoc} and regular expert groups as advisory institutions will increase the intellectual capacity of the Regulator. Adequate financial and technological resources for implementation of the Regulator’s functions must be provided and used effectively.

\textbf{19. The Regulator shall actively work to reduce the information asymmetry} in order to fulfill its functions successfully and fairly. The Regulator will motivate service providers to render full and accurate information. Informative contacts with companies, regular accounts and information to the Regulator, accounting rules for service providers will promote reduction of information asymmetry. The Regulator will build a strong internal economic information analysis system.

\textbf{20. Public service market in Latvia has already become a part of the common global market, and in the future convergence of technologies, free flow of capital, operation of multinational service providers will continue to promote even closer integration. Due to these reasons the Regulator’s bilateral and multilateral cooperation with regulators from other countries in all public service sectors, development and implementation of uniform regulation principles and policy, adoption and exchange of experience, participation in seminars and conferences etc. will become regular activities of the Regulator on international level.}

\textsuperscript{27} Interconnection – physical and logical connection of different service supply networks/systems which lets consumers connected to one network to access services which are available in another supply network.