ENERGY SECTOR REGULATION IN LATVIA

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INTERNATIONAL DIMENSION
GDP

- GDP 2009 versus 2008 – decrease by 18%

However, there is a slight improvement of the situation:
- GDP 1st quarter of 2010 versus 1st quarter of 2009 - decrease by 6.1%
- GDP 2nd quarter of 2010 versus 2nd quarter of 2009 - decrease by 2.1%
- GDP 2nd quarter of 2010 versus 1st quarter of 2010 – increase by 0.8% (seasonally adjusted data)
ECONOMIC DEVELOPMENT

- Industrial production output in the 2nd quarter of 2010 compared to 2nd quarter of 2009 has increased by 12.4%
- The annual average rate of inflation in August 2010 was -1.8%
- The current account is in surplus – 5.8% of GDP in the 2nd quarter of 2010
- General government consolidated budget deficit in the first half of 2010 was 2.9% of GDP, decreasing from 6.4% deficit in the first half of 2009
CONSUMPTION

• Natural gas consumption:
  – decrease by 8,6% in 2009 comparing to the 2008 volume
  – 1st half of 2010 versus 1st half of 2009 - increase by 22 %*

*Effect of cold winter

• Electricity consumption:
  – 2009 versus 2008 – decrease by 7,9%
  – 1st half of 2010 versus 1st half of 2009 - increase by ~2%
Established in July, 2001

Independent authority:
- 5 Commissioners appointed by the Parliament for a 5 year period
- decisions can be challenged only by the court
- funding: duty on the net turnover of regulated services
REGULATORY SYSTEM OF PUBLIC UTILITIES IN LATVIA till 1 November 2009

Ministry of Economics

Parliament

Public Utilities Commission

- Energy
- Telecommunications
- Post
- Railway

Local governments

Municipal Regulators

- Domestic waste management
- Water supply and sewage
- Heat supply
REGULATORY SYSTEM OF PUBLIC UTILITIES IN LATVIA after November 1, 2009

- Energy
- Telecommunications
- Post
- Railway
- Domestic waste management
- Water supply and sewage
MAIN TASKS

• Balancing utilities and consumers interests
• Determination of tariff calculation methods
• Approval of tariffs
• Issuing licenses
• Provide quality control of services
• Settle disputes among customers and utilities
Amendments to the law, without assigning additional funds, obligated the Regulator to take over regulatory functions in:

- heat supply
- water supply and
- waste management

sectors from municipal regulators or municipalities from November 1, 2009

From July 1, 2009, the Regulator was assigned with the task of taking over the functions of the State Construction Inspection regarding:

- control of maintenance of energy supply facilities and
- supervision of compliance with safety and maintenance requirements for hydro-technical facilities of hydropower stations
NEW FUNCTIONS

In the first half of 2010 PUC has finalized setting up new structure and recruiting personnel after taking over duties of municipal regulators.


Intensive work is done in issuing new licenses and adjusting one’s issued by municipal regulators for district heating companies, handling customer complaints and assessing tariff proposals.
REGULATION OF SERVICES

TRANSMISSION AND DISTRIBUTION:

- Rate of return on Regulated Asset Base (RAB)
- Rate of return (ROR):
  - Electricity: transmission -7.8% ; distribution -7.6%
  - Natural Gas: transmission, storage, distribution -8%
- Tariff calculation period - one year
- Application of price cup principle was not appropriate
- Companies can submit new tariff proposal any time they consider it appropriate, but costs alterations should be justified
TARIFFS - ELECTRICITY

• End user tariffs – no change since March 2008

• In May 2010, PUC has approved a transmission tariff proposal, with an average increase by ~ 43% (reasons: revaluation of assets and requirements of extra reserve capacity); impact to the end user tariff ~ 5%

• By ruling of court, the PUC decision on extension of evaluation terms of tariff proposal of distribution company was repealed.

• In September, the court decided that PUC decision on the tariff proposal should be accepted within 10 days. PUC has rejected a distribution tariff proposal. Main reason - unjustified forecast regarding the volume of distributed energy.

• Support component for energy produced by renewable and cogeneration plants: increase by ~ 30% from April, 2010 versus April, 2009, and represents ~ 16 Euro/MWh
Natural gas tariffs in Latvia in 1st half 2010 were among lowest within the European Community.

Caused by oil/oil product price changes in the world market, gas price initiated tariffs increase:

- **Households** by ~21-38% (June versus January 2010)
- **Industry** by ~12-16% (June versus May 2010, changes monthly)

Tariffs are close to the level of tariffs at the end of 2008.

Forecast - tariffs will stay at the same level till the end of 2010.
INVESTMENTS

POWER GENERATION

• Gas CHP with capacity 144 MW has been commissioned in Riga, October 2005
• Gas CHP with capacity 50 MW in Riga, May 2006
• New gas CHP with capacity 400 MW in Riga 2008
• Plans to build coal power plant 400MW capacity by 2015 *

Not jet tendered
NEW INVESTMENTS

BALTIC REGION

• Ignalina NPP – not clear final decision on a scale of project
• Future status of Narva oil shale power plants after 2012
• Interconnections:
  – Nordic link 2 -
  – Lithuania – Poland
  – Lithuania - Sweden
• In 2009 domestic power generation in Latvia increased above 20% *

• Heat generation in 2009 dropped from ~10% to 22% depending upon site due to change of consumption pattern

* Effect of the commissioning of new power block with 400 MW capacity of cogeneration plant in Riga and the closure of Ignalina Nuclear Power Plant
The PUC is lead regulator in activities related to the Baltic electricity regional initiative (ERI) within the EC and ERGEG framework.

PUC plays active role in the implementation of Baltic Energy Market Interconnection Plan (BEMIP).

In line with BEMIP, it is foreseen that Nordpool spot price area will open in all three Baltic countries.