



Case of Latvia

Rota Šņuka

Public Utilities Commission



Workshop: International Experience on Energy Tariff Reforms

April 19, 2023 | Tashkent, Uzbekistan

Table of contents

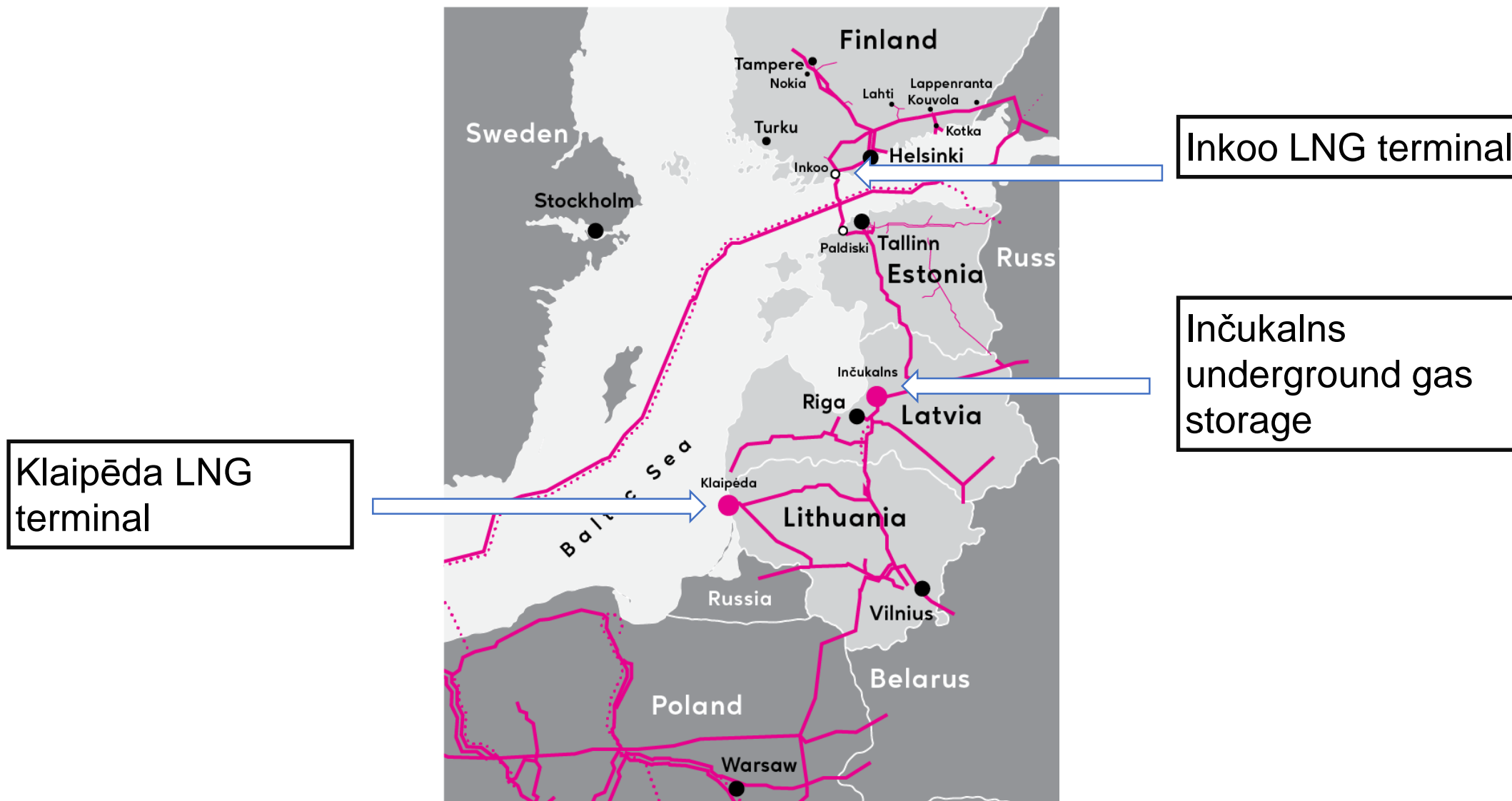
- Natural Gas
- Electricity
- Communication





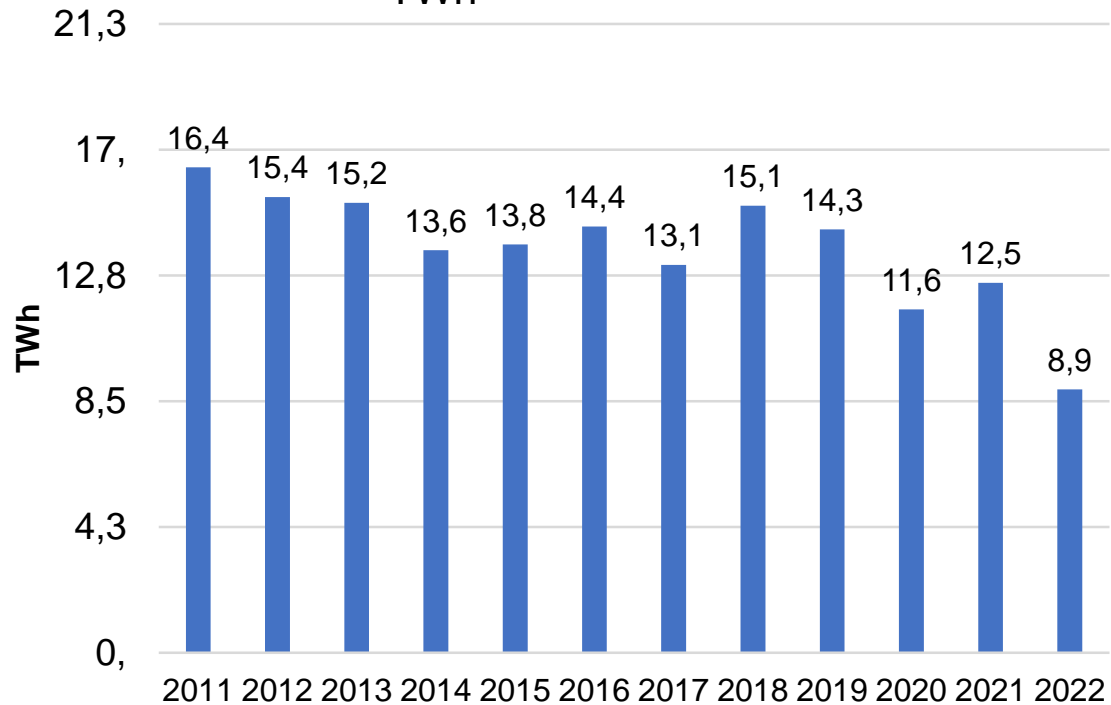
NATURAL GAS

Finish-Baltic natural gas market

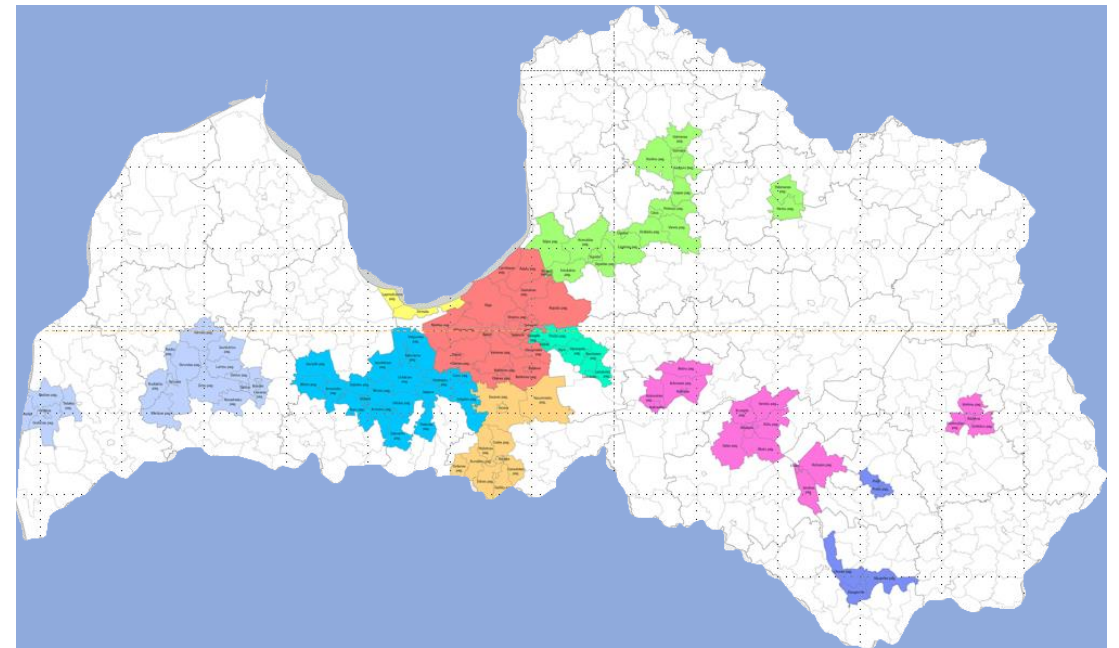


Basic info on Latvia's natural gas markets

Natural gas consumption in Latvia, 2011-2022,
TWh



Gazified parishes in Latvia

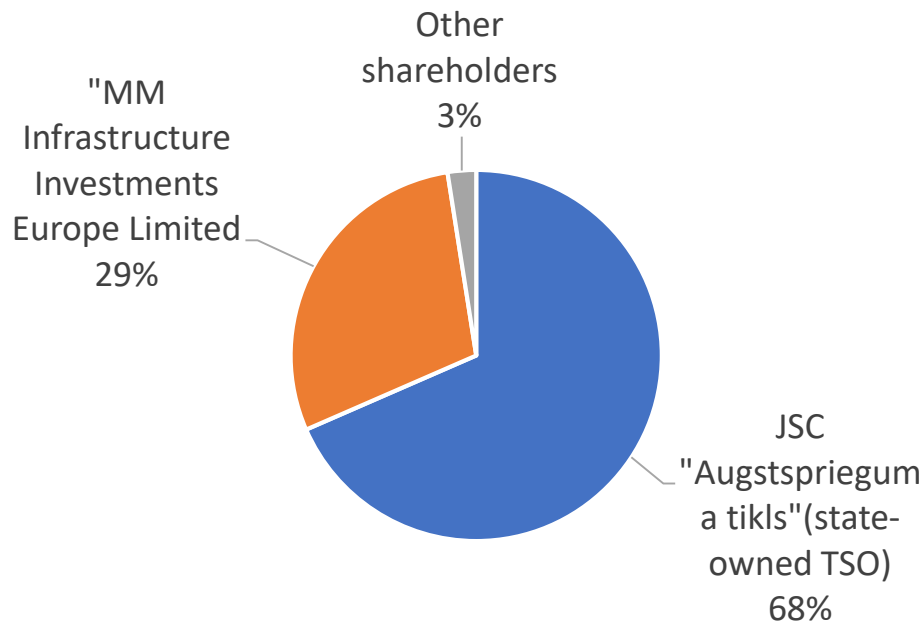


Main players in the natural gas sector over time

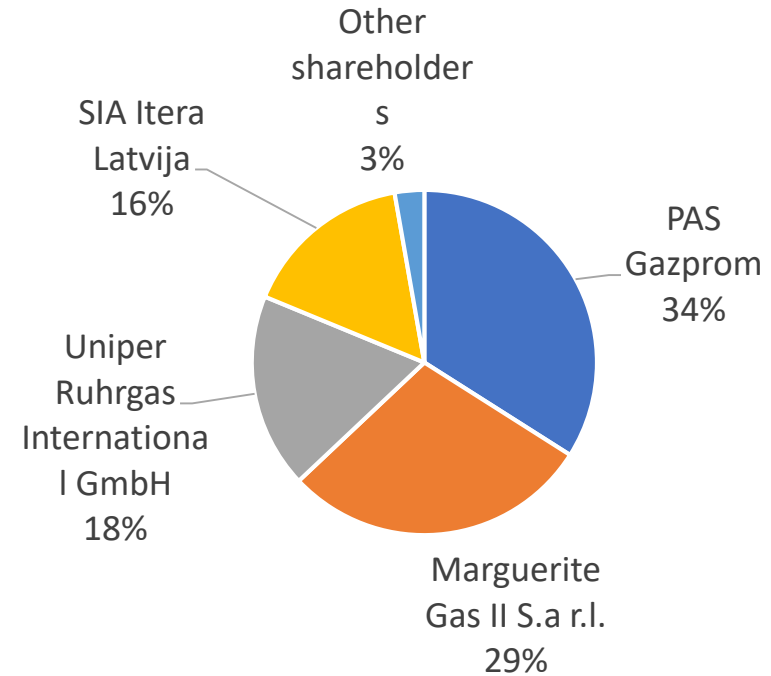
Timeline	Privatized in 1997	Unbundled in 2017	Structure in 2023
TRADE		JSC «Latvijas gāze»	JSC «Latvijas gāze» 34 Independent traders
DISTRIBUTION	JSC «Latvijas gāze»	JSC «GASO»	JSC «GASO»
TRANSMISSION		JSC «Conexus Baltic Grid»	JSC «Conexus Baltic Grid»
STORAGE			

Ownership structure in gas sector

Gas transmission and storage
JSC «Conexus Baltic Grid» shareholders



Gas trade JSC «Latvijas Gaze»
Gas distribution JSC «Gaso» shareholders



Gasified households in Latvia, 2022



Source: JSC «GASO»

1 May 2023 – natural gas market opening for all users

Natural gas price formation

- REFORM 1 –Capacity charge introduction, 1998
- REFORM 2 –Stepwise tariff increase, 2003-2005

Charge for natural gas consumed (m³/kWh)

- REFORM 3 - Free market since 03.04.2017.
- REFORM 4 - Regulated price for households until 01.05.2023.

Distribution and transmission tariffs

- REFORM 5 – Capacity charge for households since 2016.

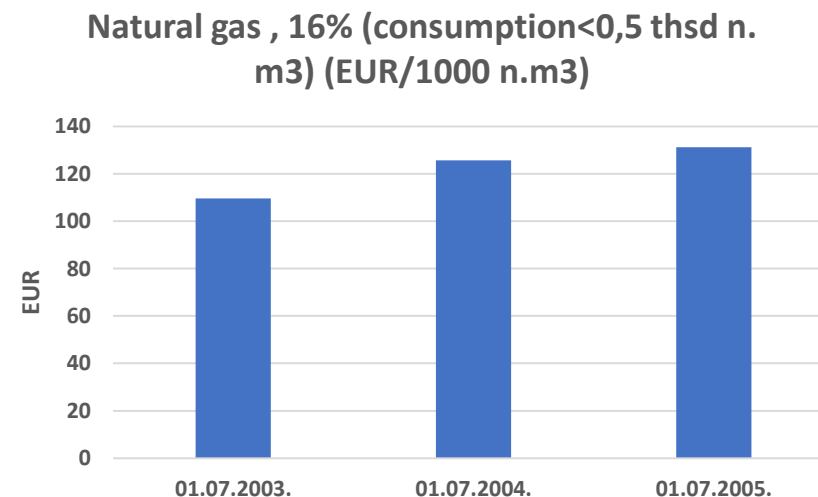
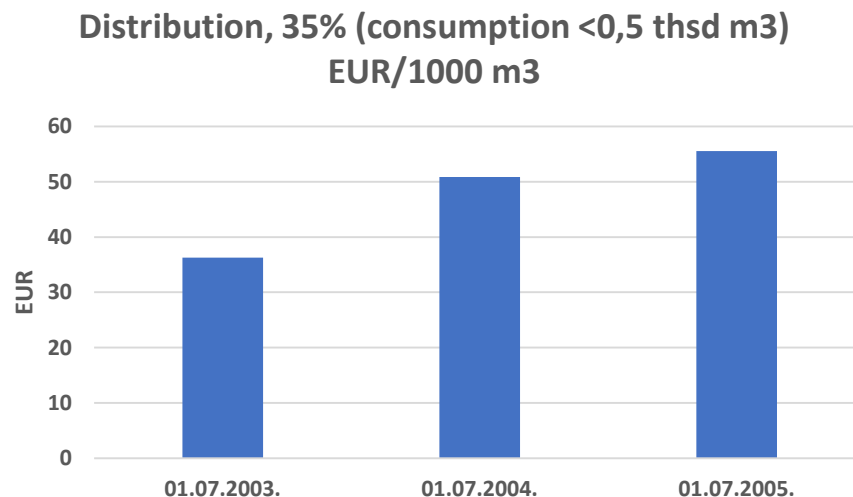
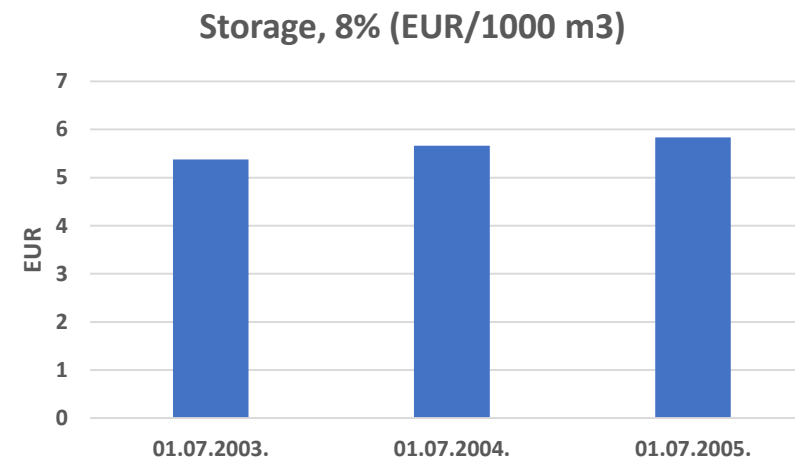
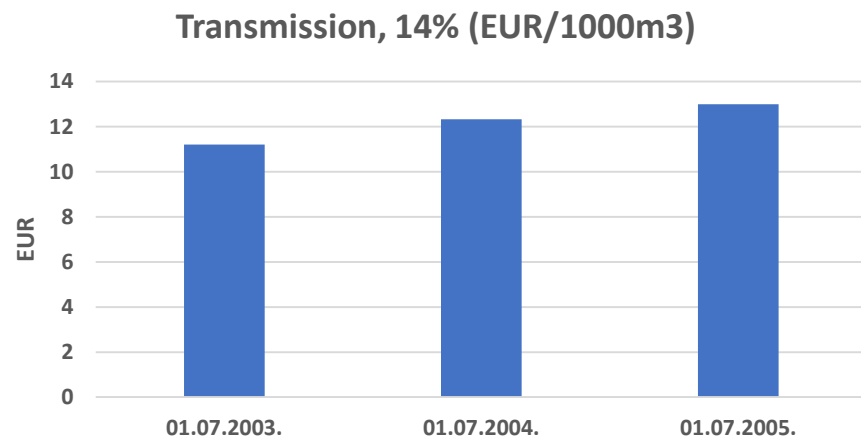
Excise tax 1,65 EUR/MWh

Value Added Tax 21%

Natural gas tariffs for households, 1995-1998

	From 01.04.1995	1998
For users whose apartments have gas meters installed:		
- for household needs (stove, flow-through gas water heater)	120,94 EUR/thsd m ³	71,14 EUR/thsd m ³
- for household needs and heating	91,06 EUR/thsd m ³	
For users whose apartments do not have gas meters:		
- for a gas stove, if there is a centralized hot water supply every day.	0,97 EUR per person per month	0,43 EUR per person per month
- for a gas stove, if there is another mode of hot water supply.	1,34 EUR per person per month	0,64 EUR/ per person per month
- for a gas stove and through-flow gas water heater.	1,99 EUR per person per month	
Capacity charge (until 30.04.1998)	n/a	1,35 EUR/month
Capacity charge* (from 01.05.1998) (for household needs, stove, flow-through gas water heater)		1,35 EUR /month
Capacity charge* (from 01.05.1998) (for household need and heating)		3,70 EUR/ month

Natural gas tariff increase for households, 2003-2005



+ Capacity charge (constant)– 0,88 Eur/month

Exchange rate: 1EUR=1,11USD

Natural gas distribution system tariffs, 01.01.2023

	Variable part of tariff, consumption	Base Tariff	Sezonal tariff	Units
1.	TV < 2 635 kWh	22,9503		EUR/MWh
2.	2 635,1 < TV < 263 450 kWh	8,9199	34,0287	EUR/MWh
3.	263 450,1 < TV < 1 327 788 kWh	8,5700	15,9742	EUR/MWh
4.	1 327 788,1 < TV < 13 277 880 kWh	5,8542	7,0386	EUR/MWh
5.	13 277 880,1 < TV < 132 778 800 kWh	3,9134	5,4977	EUR/MWh
6.	132 778 800,1 < TV < 210 760 000 kWh	1,4665	3,7378	EUR/MWh
7.	210 760 000,1 < TV < 1 353 800 000 kWh	1,9771	2,4579	EUR/MWh
8.	TV > 1 353 800 000 kWh	0,4006	1,1781	EUR/MWh

	Capacity charge	Tariff value	Units
1.	TF < 6 m ³ /h	39,63	EUR/per year
2.	6,1 < TF < 10 m ³ /h	109,05	EUR/per year
3.	10,1 < TF < 16 m ³ /h	174,21	EUR/per year
4.	16,1 < TF < 25 m ³ /h	265,79	EUR/per year
5.	25,1 < TF < 40 m ³ /h	394,80	EUR/per year
6.	40,1 < TF < 65 m ³ /h	653,54	EUR/per year
7.	TF < 65 m ³ /h	8,62	EUR/m ³ /h/per year

Method: Revenue cap

Regulatory period: 01.07.2021 – 31.12.2025 (4,5 years)

Motivations for gas system tariff reform

Efficient utilization of network and optimization of investments.

Secure and continuous supply of natural gas

- Investments necessary for the maintenance and renewal of the network must be ensured so that the distribution operator is able to eliminate security and safety risks.

Income and expenditure imbalance

- Natural gas consumption has decreased by 30% and the tariff that has been in effect for 10 years no longer covers fixed costs, which accounts for 90% of the maintenance costs of the distribution system. .

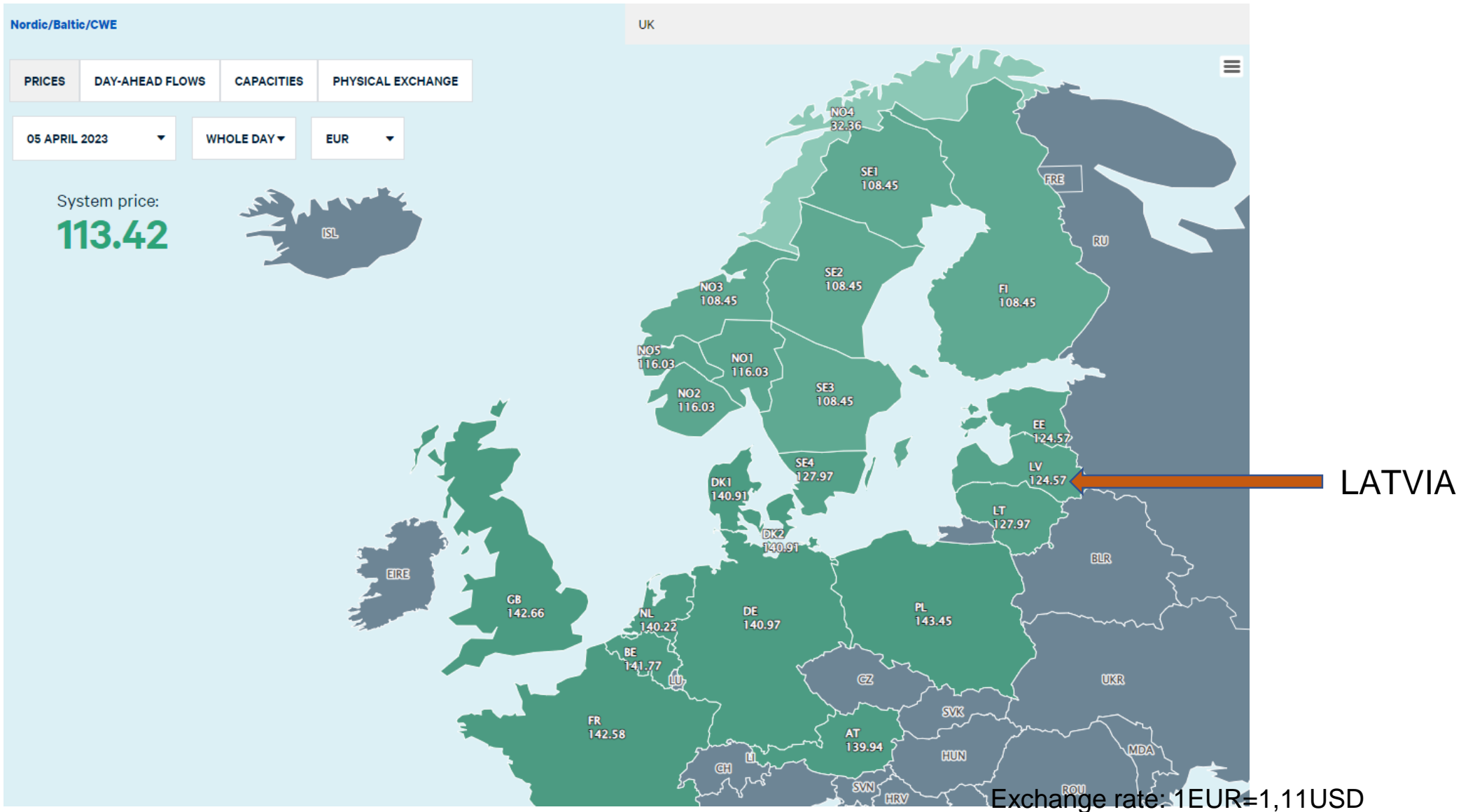
"0" connection problems

- Currently, those customers who consume natural gas also pay for those customers who are provided with a gas connection, but who do not consume natural gas.

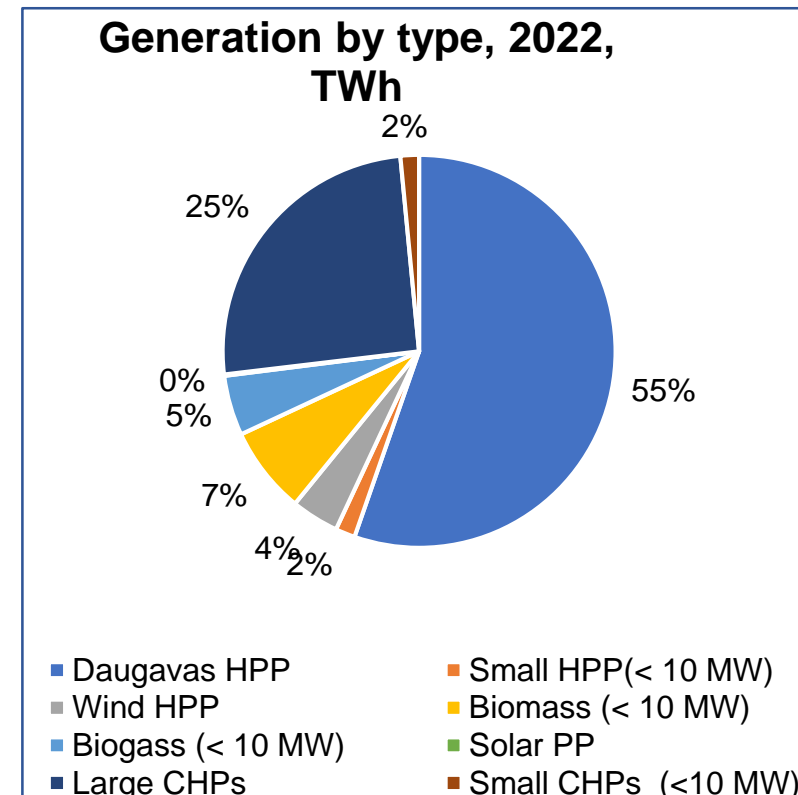
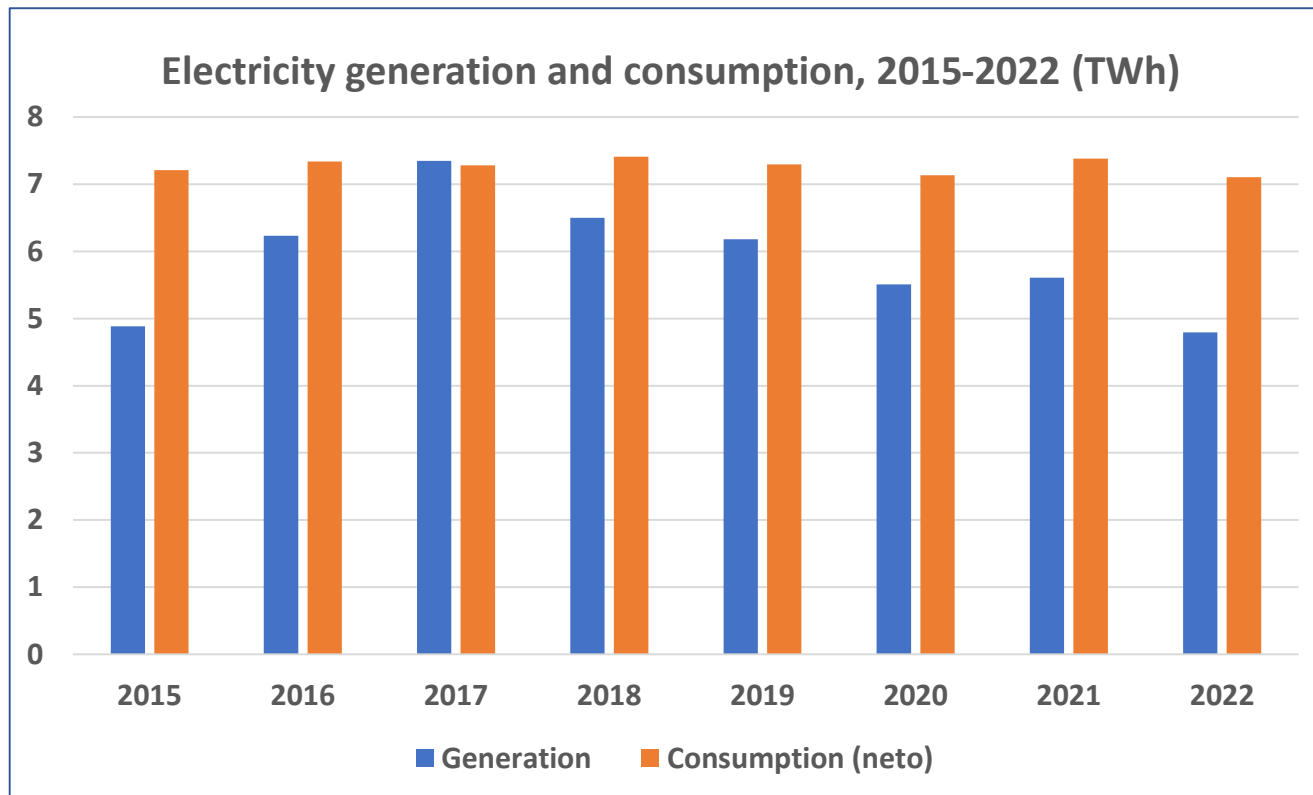


ELECTRICITY

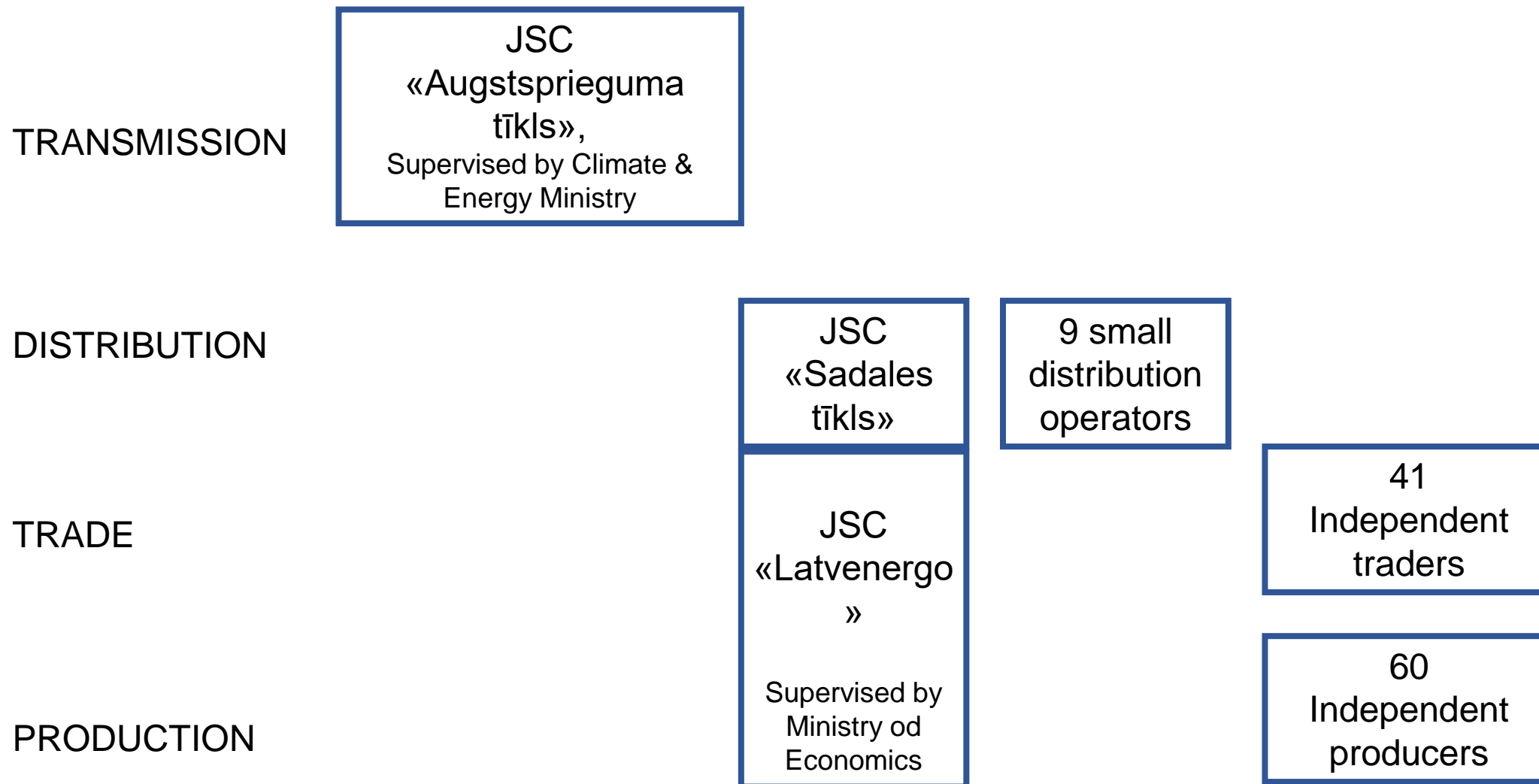
Wholesale electricity trade. Latvia trades electricity on Nord Pool since 2013.



Basic info on Latvia's electricity markets



Market structure



Electricity price formation

Charge for electricity consumed (kWh)+ trade mark-up

- REFORM - Free market since 2015.

Distribution and transmission tariffs

- REFORM1 – Capacity charge for households since 2016.
- REFORM2 – Simplified tariff structure (planned 2023).

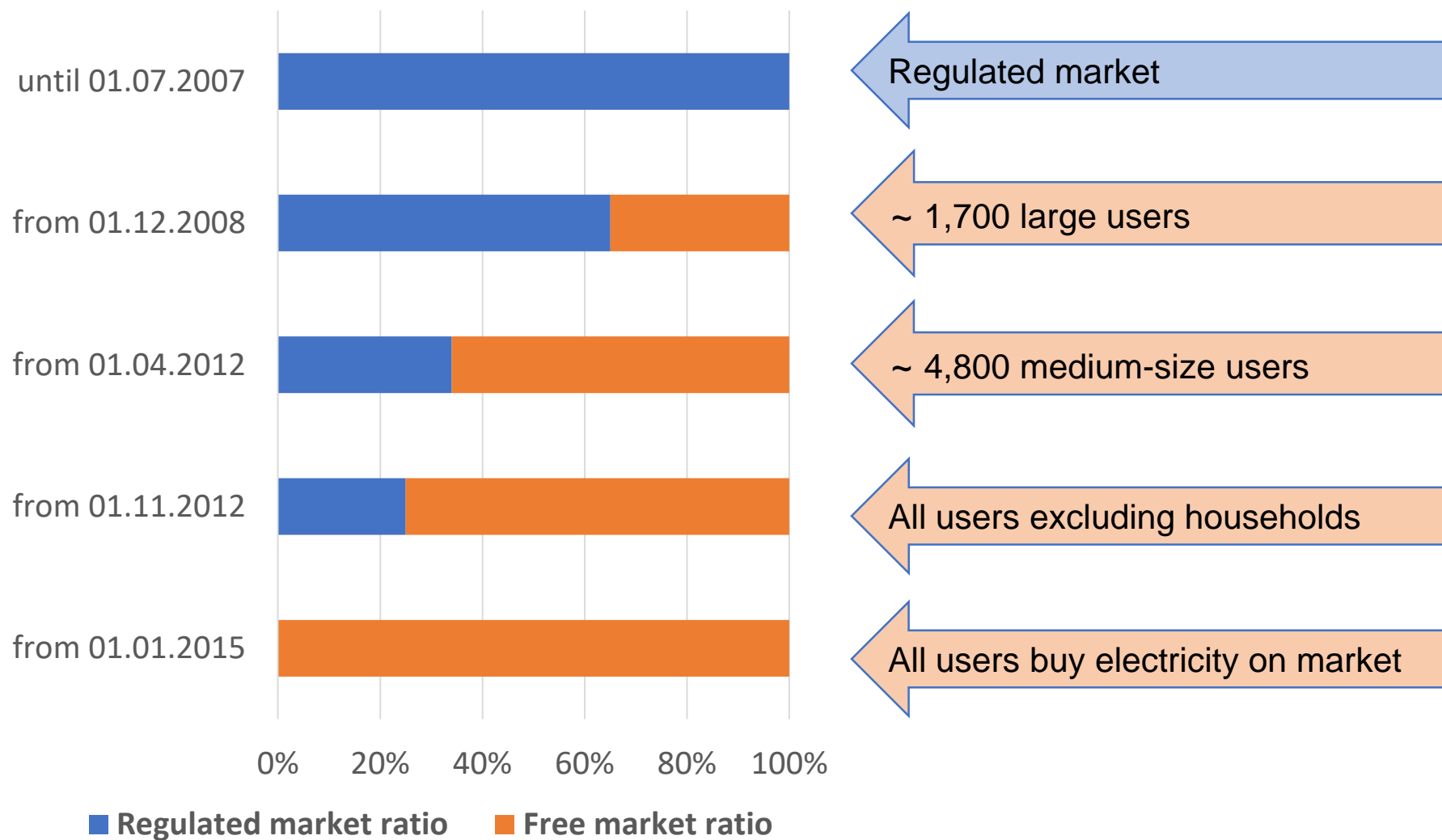
Other charges (mandatory procurement component [MPC])

- REFORM – Since 01.01.2023 MPC has been covered from the State budget.

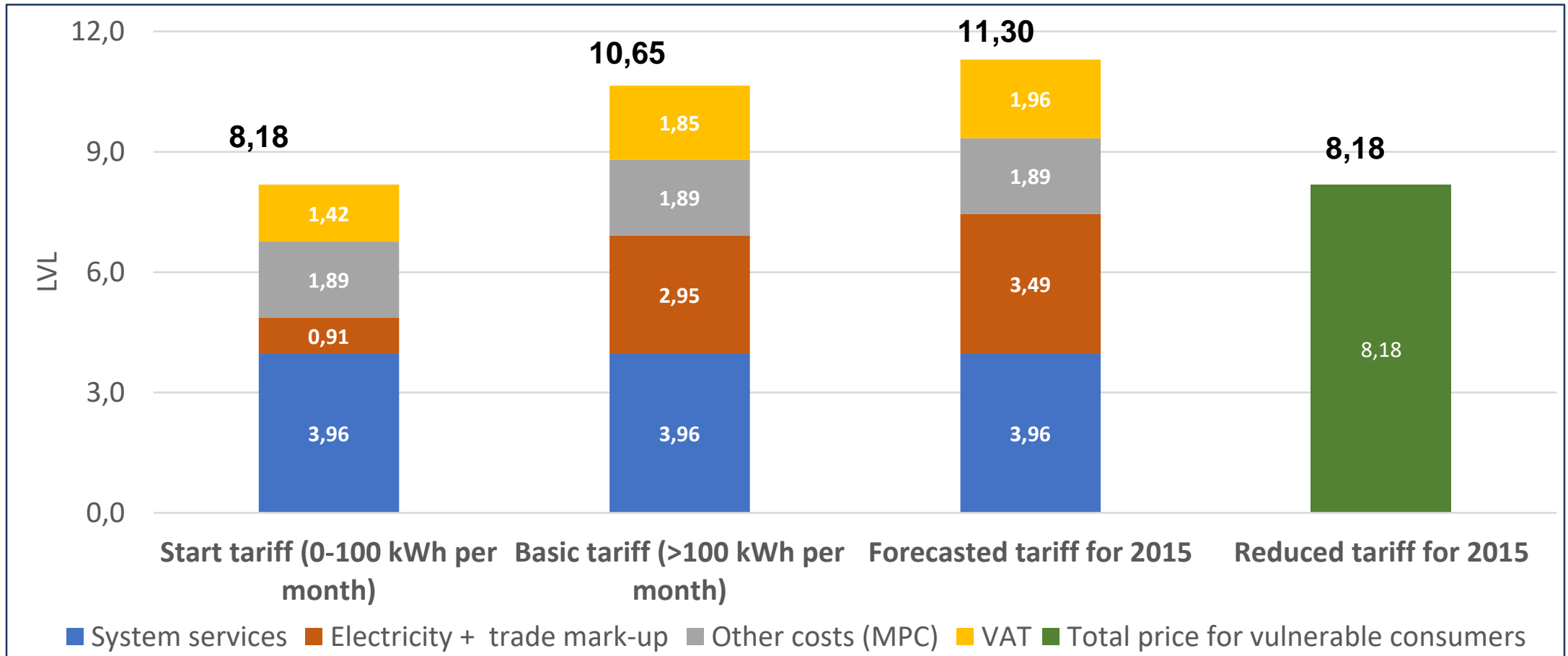
Value Added Tax 21%

Since 2015 electricity tariffs are cost reflective.

From regulated to market electricity price – step by step (% of total electricity consumption)



Total electricity price development (households), 2014



Exchange rate: 1 LVL= 1,42 EUR = 1,58 USD

Electricity distribution system tariff – households

Consumer groups	01.04.2011.	01.08.2016	01.01.2020 – until today
S1 Households: single-phase, ≤40A			
Energy charge (EUR/kWh)	0,05640	0,04408	0,04076
Capacity charge (EUR/year)	-	14,88	14,88
S2 Households: three-phase, ≤16A			
Energy charge (EUR/kWh)	0,05640	0,04408	0,04076
Capacity charge (EUR/year)	-	38,40	38,40
S2 Households: three-phase, 17 – 63A			
Energy charge (EUR/kWh)	0,05017	0,04408	0,04076
Capacity charge EUR/A/year	1,02	2,40	2,40
S2 Households: three-phase, ≥64A			
Energy charge (EUR/kWh)	0,05017	0,4408	0,04076
Capacity charge (EUR/A/year)	1,02	10,52	10,52

Exchange rate: 1EUR=1,11USD

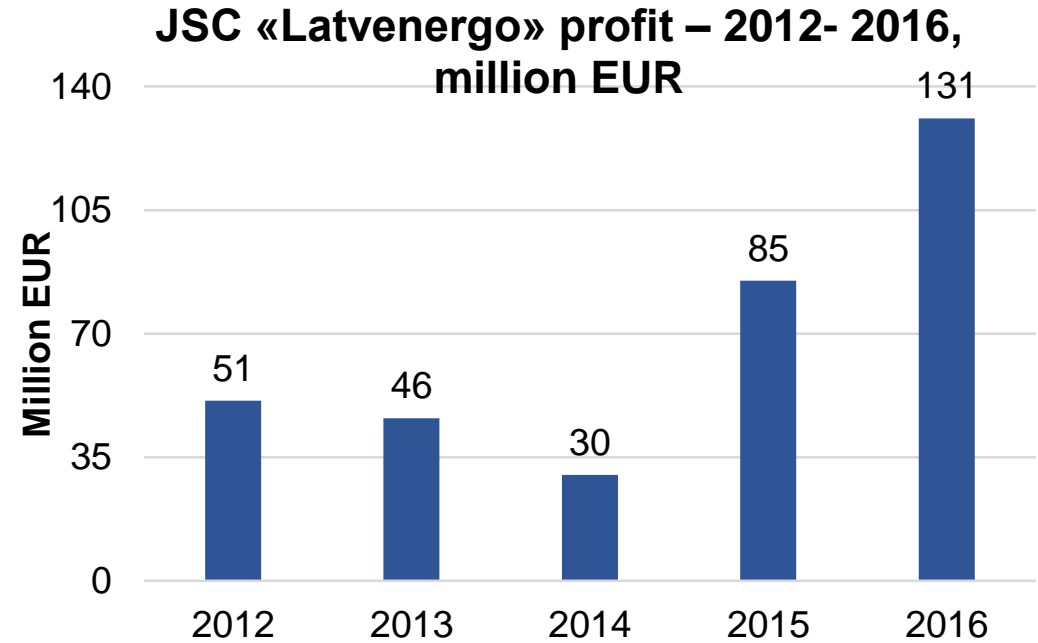
Why tariff reform is necessary?

ELECTRICITY TARIFF REFORM IN 2015

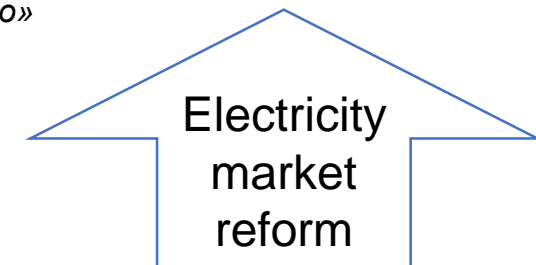


PUBLIC
UTILITIES
COMMISSION
OF LATVIA

- The electricity tariff is subsidized for all consumer groups – vulnerable and financially-stable people equally. After the reform only vulnerable consumers will be subsidized.
- JSC «Latvenergo» will pay more money to the state budget. The state will be able to increase payments for the education and medical sectors.



Source: JSC «Latvenergo»



Why tariff reform is necessary?

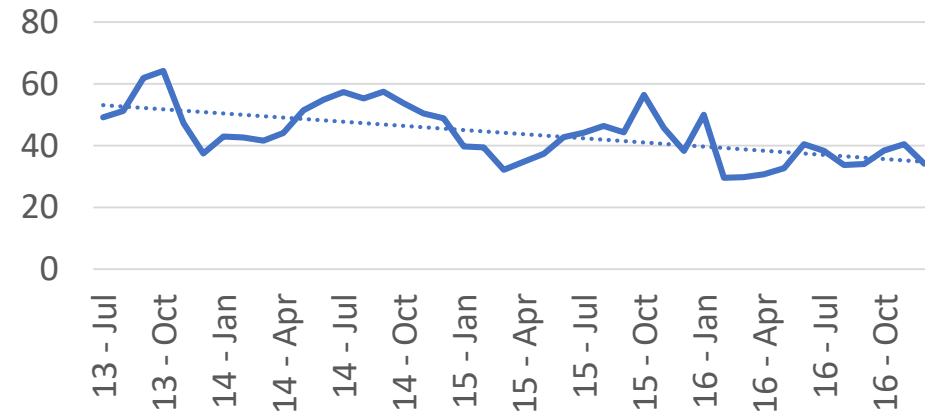
ELECTRICITY TARIFF REFORM IN 2015



PUBLIC
UTILITIES
COMMISSION
OF LATVIA

- System operators will be able to invest more in regional infrastructure.
- NordBalt cable (Lithuania – Sweden) will begin operation in 2016. Latvia will be able to receive inexpensive electricity from Nordic countries.

Day-ahead electricity wholesale price in
Latvian trading zone 2013-2016
(EUR/MWh)



Source: Nord Pool

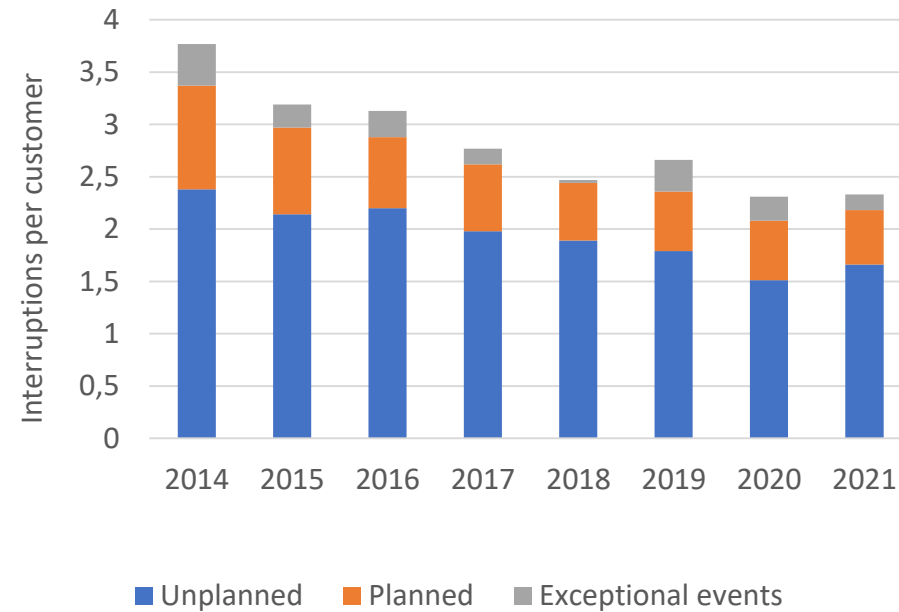
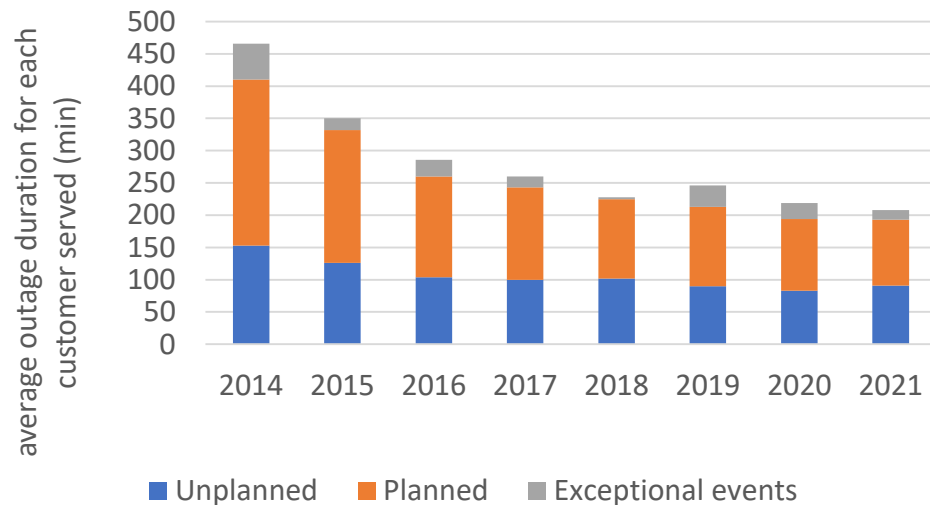
Why tariff reform is necessary?

ELECTRICITY TARIFF REFORM IN 2016



PUBLIC
UTILITIES
COMMISSION
OF LATVIA

- System operators will be able to invest more towards improving network safety and security.



SAIDI – System Average Interruption Duration Index SAIFI – System Average Interruption Frequency Index

Source: JSC «Sadales Tīkls»

Vulnerable (protected) consumers, electricity

Consumers Group	Monthly support
A poor or low-income family (person).	15 EUR 5 EUR (until 31.10.2021)
A large family, (3 children and more).	20 EUR 10 EUR (until 31.10.2021)
A family (person) which takes cares for a child with disabilities	15 EUR 5 EUR (until 31.10.2021)
A person with group I disability.	15 EUR 5 EUR (until 31.10.2021)

Until 31.08.2021 – protected consumers had bought electricity for reduced fixed price per kWh.

How are bills reduced for vulnerable customers?

- The customer's bill is reduced automatically.
- Information received from Protected Customer Data Information System (ALDIS) (operational since 01.09.2021).
- Exemptions from automatic bill reduction:
 - sub-users, or persons who do not have a direct contract with an electricity trader.
 - Large families, in which at least one of the children between the ages of 18 and 24 receives general, professional or higher education abroad.

Where does ALDIS get its information from?

About large families

- Register of Natural Persons - Office of Citizenship and Migration Affairs

About families with children with disabilities and persons with group 1 disabilities or their guardians

- Disability Information System - State Commission of Physicians for Health and Work Capacity Examination

About poor or low-income family (person)

- Register of municipalities

Number of protected customers

	Large Families	A poor or low-income families (persons)	Families (persons) which cares for a child with disabilities and persons with the group I disability.	TOTAL
Before ALDIS	23 433	34 533	13 243	71 209
After ALDIS	35 075	35 500	21 318	91 893
Increase in numbers	11 642	967	8 075	20 684
Increase in %	50%	3%	61%	29%



COMMUNICATION

Communication plan

Purpose of Communication

- to explain the need for, and short and long-term benefits of, tariff reform

Target audience

- household members responsible for paying bills (differs by age, gender, level of income, nationality, IT skills, etc.)

Way of Communication

- depending on target audience - press conference (TV, Radio), social networks, press, expert reviews, information leaflets, Q&A, additional information on bills, letters

When to communicate

- public hearing, if applicable (before the decision is taken)
- to explain clearly – what will change and when (before and after the decision is taken)
- ensure communication after first bills are received

Who is responsible for communication

- responsible institution - Ministry in cooperation with Regulator, Distribution and Transmission System Operator, Members of Parliament, politicians

Communication, electricity tariff reform 2015



PUBLIC UTILITIES COMMISSION OF LATVIA



40 tūkstošiem trūcīgo un maznodrošināto ģimeņu palīdzēs norēķināties par elektrību

Patlaban atbalstam norēķiniem par patērēto elektroenerģiju pieteikušies 40 tūkstoši Latvijas maznodrošināto un trūcīgo mājsaimniecību, intervijā raidījumā 900 sekundes sacīja uzņēmuma Latvenergo komercdirektors Uldis Bariss.



Press conference : Ministry of Economic Development (MoE), Regulator, DSO

40,000 low-income families will receive support to pay electricity

MoE, DSO and expert answer the journalist's questions (TV)

Sadales tīkls: 80% klientu ir informēti par elektroenerģijas tirgus atvēršanu

Par spīti tam, ka tirgus atvēršana gaidāma jau gadu mijā, plašāk iedzīvotājiem šie jautājumi nav skaidroti, un daudzi ir neziņā, kādas izmaiņas gaidāmas un kā ir jārikojas. LNT raidījumā 900 sekundes Sadales tīkls valdes loceklis Ilvars Pētersons norādīja, ka 80% klientu ir informēti par elektroenerģijas tirgu, bet informācija ne visiem ir pietiekama.



DSO: 80% of customers are aware of the opening of the electricity market

Member of Parliament, Jānis Ozoliņš, explains electricity market

Elektroenerģijas tirgus atvēršanas līdzības un atšķirības Igaunijā un Latvijā



Raksts lasīts: 66

Lasīšanas laiks: 8 min

Šā gada sākumā viena no galvenajām aktualitātēm ir elektroenerģijas tirgus atvēršana mājsaimniecībām Latvijā. Lai gan Saeima 20. marta sēdē atbalstīja Elektroenerģijas likuma grozījumus, nolēmjot atlikt elektroenerģijas tirgus mājsaimniecībām atvēršanu līdz 2015. gada 1. janvārim, šis lēmums nemazina temata aktualitāti. Līdz tirgus atvēršanai ir jāpagūst paveikt daudzi svarīgi sagatavošanas darbi, lai mazinātu sociālo spiedi, kas saistīts ar elektroenerģijas kopējās cenas sagaidāmo kāpumu, izstrādātu pārdomātus un efektīvus atbalsta mehānismus mazāk turīgajām mājsaimniecībām, kā arī elektroenerģijas tirgotāji varētu sagatavot piedāvājumus un pārdošanas kampanjas, lai plašāk informētu mājsaimniecības

Similarities and differences in electricity market opening in Estonia and Latvia

Lessons learnt from the tariff reform



PUBLIC
UTILITIES
COMMISSION
OF LATVIA

- Clear support scheme for vulnerable customers.
- Simple mechanism how vulnerable customers can receive support.
- Stepwise approach regarding tariff increase and/or market liberalization.
- Transparency regarding tariff calculation – what costs how much.
- Understandable and predictable tariff formation.
- Direct and clear communication, clear message about expected price levels and benefits.
- All parties involved in communication.

Recommendations

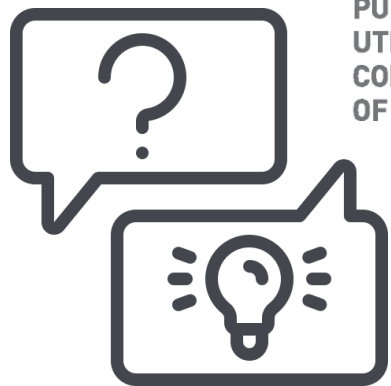


PUBLIC
UTILITIES
COMMISSION
OF LATVIA

- Transition to competitive energy markets including competitive wholesale and retail markets.
- Establish cost-reflective tariffs step by step.
- Establish clear and simple mechanism how to support vulnerable consumers.
- Introduce energy quality benchmarks.
- Remove cross-subsidies between different user groups.
- Explore opportunities for cross-border cooperation regarding electricity trade.
- Assess needs for ownership unbundling (production, trade, distribution, transmission).
- Address financial imbalances, identify whether there is a problem with debts and how to solve it.
- Establish independent Regulator leaving decision making for the policy level, but tariff methodologies and calculation for the Regulator.



PUBLIC
UTILITIES
COMMISSION
OF LATVIA



**THANK YOU
FOR YOUR ATTENTION!**

Rota Šņuka
Rota.Snuka@sprk.gov.lv