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The *Saeima*¹ has adopted
and the President has proclaimed the following Law:

Electricity Market Law

Chapter I General Provisions

Section 1. Terms Used in this Law

(1) In this Law the same terms as in the Energy Law are used unless it has been determined otherwise in this Law.

(2) The following terms are used in this Law:

1) **balancing** – an organised process for ensuring balance between electricity consumption and production in the electricity system;

2) **an electricity user** – a person who purchases electricity;

3) **transmission of electricity** – transportation of electricity, which does not include the trade of electricity, in an interconnected high-voltage system in order to supply electricity users with electricity;

4) **an electricity producer** – a natural person or a legal person, who produces electricity;

5) **distribution of electricity** – transportation of electricity, which does not include the trade of electricity, in a medium- and low-voltage distribution system in order to supply electricity users with electricity;

6) **electricity system participants** – electricity producers, a transmission system operator, a distribution system operator and end users;

7) **an electricity system operator** – a licensed capital company, which provides a system service;

8) **trade of electricity** – procurement of electricity for sale or selling of electricity to the users thereof;

9) **an electricity trader** – an electricity user who purchases and sells (supplies – in the sense of selling) electricity to another user thereof;

10) **electricity market participants** – producers, traders and end users of electricity, who operate in the electricity market in accordance with the principle of voluntary participation;

11) **an end user** – an electricity user who purchases electricity for utilisation for his or her own needs (final consumption);

12) **co-generation** – a technological process in which electricity and thermal energy is generated concurrently for efficient utilisation;

13) **a household user** – an end user who purchases and uses electricity in his or her household for his or her own needs (final consumption), except the needs of commercial activities or other type of professional activities;

¹ The Parliament of the Republic of Latvia

14) **mandatory procurement** – a duty to procure electricity prescribed in this Law and other regulatory enactments;

15) **ancillary services** – services which are required for the provision of balanced operation of the electricity transmission system;

16) **a public trader** – an electricity trader, who has been assigned special duties by this Law and other regulatory enactments and whose licence includes special requirements for ensuring the performance of the public trader duties;

17) **an associated user** – an electricity user who does not utilise the opportunity to become a participant of the electricity market and thereby freely select an electricity trader, but purchases electricity from a public trader or the relevant distribution system operator for tariffs approved by the regulator;

18) **a system service** – transmission or distribution of electricity, which ensures the flow of electricity from producers to users;

19) **a cross-border connection** – an electric line, which connects transmission systems located in different states;

20) **a direct line** – an electric line, which links a solitary electricity production object with a solitary user, or an electric line, which links an electricity generator with a trader who directly supplies the objects, associated undertakings in the ownership or possession thereof and the users;

21) **universal service** – guaranteed right to a supply of electricity of a certain quality for a price which may be easily and clearly compared and revised; and

22) **a vertically integrated electricity merchant** – a merchant or a body of merchants (an enterprise group), which performs at least one of the following energy supply activities – transmission or distribution of electricity – and at least one of the following energy supply activities – production or trade of electricity.

Section 2. Purpose of this Law

The purpose of this Law is:

1) to establish prerequisites for the operation of an efficiently functioning electricity market;

2) to ensure that, taking into account the requirements of regulatory enactments, all electricity users (hereinafter – users) are provided with electricity safely and in good quality, in the most efficient possible way, for justified prices;

3) to ensure all users with the right to choose an electricity trader freely; and

4) to promote the production of electricity by using renewable energy resources.

Section 3. The Scope of the Application of this Law

(1) This Law shall regulate the types of activities to be performed in the electricity market, which shall include the production of electricity, transmission of electricity (hereinafter – transmission), distribution of electricity (hereinafter – distribution), trade of the electricity as a free circulation commodity and the provision of services necessary for the trade thereof.

(2) This Law shall determine the requirements, which the participants of the electricity market (hereinafter – market participants) and the participants of the electricity system (hereinafter – system participants) shall observe in their activities in the electricity market.

(3) This Law shall determine the competence of the ministry responsible for the energy industry (hereinafter – Ministry) and the Public Utilities Commission (hereinafter – the Regulator) in the monitoring and regulation of the electricity market.

(4) This Law shall determine the incentive measures for production of electricity by using renewable energy resources.

Chapter II

The Electricity System and Market

Section 4. Electricity System

(1) An electricity system (hereinafter also – system) shall consist of electricity production equipment, transmission and distribution systems and electricity consumption equipment, which are interconnected and are necessary for the transportation of the electricity from a producer to a user.

(2) The procedures for the system management and utilisation, and the activities of market participants, except end users, shall be determined in the Network Code.

A transmission system operator shall develop and the Regulator shall approve the Network Code.

The transmission system operator shall ensure the compliance with the procedures specified in the Network Code. The Regulator may assign the transmission system operator to elaborate amendments to the Network Code and determine a time period for the elaboration and submission thereof to the Regulator.

Section 5. Main Conditions for the Operation of the Electricity Market

(1) In an electricity market the participants thereof shall execute mutual transactions in accordance with agreements concluded in writing.

(2) A market participant has the right to use the transmission and distribution systems for the transportation of electricity for the system service tariffs determined in accordance with the procedures specified in this Law and the Law On Regulators of Public Utilities.

Chapter III

Basic Principles of the System Operation

Section 6. Electricity System Operator

(1) An electricity system operator (hereinafter – system operator) is a provider of public utilities, and the operation thereof is regulated in accordance with this Law and the Law On Regulators of Public Utilities.

(2) A system operator shall be responsible for the management of the electricity flow in a transmission or distribution system.

Section 7. Licensing of a System Operator

(1) The Regulator shall issue a licence to a system operator in accordance with this Law and the Law On Regulators of Public Utilities.

(2) A licence shall indicate the area of activities in which the relevant system operator is entitled to operate and the requirements, which the system operator shall observe in the activities thereof.

(3) A system operator may not transfer the licence issued thereto to other persons.

Section 8. Regulation and Supervision of the System Operator Activity

(1) The Regulator shall regulate the activity of a system operator in accordance with the procedures prescribed in the Energy Law, the Law On Regulators of Public Utilities and in this Law.

(2) The Regulator shall determine uniform regulations for a system connection and the methodology for the calculation of a connection fee.

(3) The Regulator shall supervise:

1) the regulations for the cross-border connection capacity management and distribution in co-operation with the relevant institution or institutions of such Member States, which have such cross-border connection;

2) the action and methods, which a system operator uses for the management of a system capacity overload;

3) the time consumption by the system operator for the installation of connections and performing repairs;

4) the information published by the system operator regarding cross-border connections, the utilisation of the networks and the distribution of the system capacity to users, taking into account that non-aggregated information shall be regarded as commercial secret;

5) the separation of accounts in accordance with the procedures specified in Sections 38-40 of this Law;

6) the fulfilment of the provisions for connection of the system users specified in Section 9, Paragraph two of this Law;

7) the fulfilment of the duties of the transmission and distribution operators specified in this Law; and

8) the lucidity and the level of competition in the electricity market.

(4) Once a year the Regulator shall publish on the Internet home page thereof a report regarding the results of the supervision of the system operation aspects specified in Paragraph three of this Section.

Section 9. Operation of the System

(1) A system operator shall be responsible, within the area and the term of the licence activity thereof, for the operation, maintenance and safety of the system, the management and the development of the system, and for connection with other systems, as well as for a sustainable ability of the system to ensure the transportation of electricity in correspondence with the expected demand.

(2) A system operator shall have permanent obligation within the area and the term of the licence activity thereof to ensure system participants with the required connection to the relevant system in accordance with the regulations on the connection of system participants issued by the Regulator, and for a connection fee, which is determined by the system operator in accordance with the methodology for the calculation of the connection fee determined by the Regulator, if the system participant fulfils the technical requirements determined by the system operator. The connection fee of a new system participant shall include the justified expenses of the installation of the relevant connection and shall not include the system development expenses.

(3) In accordance with the procedures specified by the Cabinet an end user has the right to submit an application for a special connection to the transmission system or an amplification of the system connection capacity if the electricity consumption of such user after the

installation of the connection increases by at least 100 000 megawatt hours per year or with a nominal connection power not less than 50 megawatts. The Cabinet shall determine uniform special connection regulations, providing for procedures for the submission and examination of the end user application, the procedures for the connection installation and the required guarantees of the end user regarding the use of the connection, as well as shall examine the end user applications for the special connection to the transmission system or the amplification of the existing transmission system connection capacity and shall adopt a decision regarding the application of special conditions for a connection separately in each case.

(4) A system operator has the right to refuse a connection to the relevant system if the network capacity thereof is not sufficient. The system operator shall provide a justification for the refusal in writing within a period of 30 days after the receipt of an application of a system participant.

(5) Within a time period of seven working days a system operator shall inform the Regulator regarding each case when the access to the system was refused to a market participant, and regarding the measures, which are required in order to improve the system and amplify the capacity thereof.

Chapter IV Transmission

Section 10. Transmission System

A transmission system shall include interconnected networks and equipment, including cross-border connections, the voltage whereof is 110 kilovolts or more and which are used for transmission to the relevant distribution system or users.

Section 11. Transmission System Operator

(1) A single transmission system operator shall operate in Latvia, and the area of the licence operation thereof shall be all the territory of Latvia.

(2) A transmission system operator may participate in the trade of electricity only in cases where the purchase or sale of electricity or capacity is required to balance the system, to purchase ancillary services, cover losses incurred during the transportation of electricity, for the consumption by the transmission system operator or if there is a deviation in the system from the normal operation mode, or an accident has occurred.

(3) A transmission system operator shall ensure confidentiality of such commercial information, which it has received from the system participants and market participants while performing the its duties.

Section 12. Independence of a Transmission System Operator

(1) A transmission system operator, also such operator, which is included in the composition of a vertically integrated electricity merchant, shall be a separate capital company with the status of a permanent legal person and shall be separated from the activities of production, distribution and trade of electricity.

(2) The independence of a transmission system operator shall be ensured by taking into account the following conditions:

1) persons who are responsible for the management of the transmission system operator shall not engage in structures of a vertically integrated electricity merchant, which are directly or indirectly responsible for the production, distribution and trade of electricity in the daily activities;

2) persons who are responsible for the management of the transmission system operator shall be provided with a possibility to act and take decisions independently;

3) the management of the transmission system operator shall be ensured with the right to take decisions regarding the assets necessary for the exploitation, maintenance or development of the transmission system without reference to the vertically integrated electricity merchant and the dominant undertaking. It does not prohibit the formation of relevant co-ordination mechanisms in order to ensure the protection of the economic and managerial supervision rights of the dominant undertaking with regard to the return on the assets of the transmission system operator. The dominant undertaking is permitted to approve the annual financial plan of the transmission system operator, or financial planning documents similar thereto, and to determine general restrictions regarding the debt commitments of the transmission system operator, but it is not permitted to give instructions regarding the daily activities and decisions regarding the construction and installation or modernisation of the transmission system if such construction and installation or modernisation does not exceed the conditions of the approved financial plan or financial planning documents similar thereto; and

4) the transmission system operator shall elaborate a compliance programme, in which the duties of concrete employees are specified and measures, which are performed in order to prevent unequal attitude, and provide adequate control of the compliance with thereof. Each year the transmission system operator shall submit a report to the Regulator regarding the measures carried out, and such report shall be published in accordance with the procedures specified by the Regulator. After the evaluation of the report the Regulator shall provide an opinion regarding the sufficiency of the performed measures for ensuring independence. The transmission system operator shall eliminate the deficiencies indicated in the opinion of the Regulator within the time period determined by the Regulator.

(3) The Regulator shall determine, taking into account this Section, the minimum requirements for ensuring the independence of the transmission system operator.

Section 13. Responsibility of a Transmission System Operator

(1) A transmission system operator shall provide transmission system services and ensure balancing and stability in the transmission system. Such duties shall be performed in accordance with the principles of fairness, openness and equality, and the procedures for the implementation thereof shall be specified in the Network Code.

(2) A transmission system operator shall be responsible for the balancing in the transmission system and the calculations of the balancing, which shall be performed in a fair, open and equal manner in relation to all system participants.

(3) A transmission system operator shall be responsible for the safety of electricity and the energy flow management in the transmission system, ensuring an adequate transmission network capacity and a stable operation of the system.

(4) A transmission system operator shall be responsible for the elimination of the possible transmission system congestion and overload if the congestion or the overload occurs as a result of the intended trade transactions, as well as for the stability of the interconnected transmission system and the compatibility thereof with the energy systems of foreign states.

(5) A transmission system operator is entitled to restrict or refuse the intended commercial transactions if it is impossible otherwise to prevent transmission restrictions or a transmission system overload and the stability of the interconnected system is endangered. Commercial

transactions shall be registered, restricted and rejected in accordance with the procedures specified in the Network Code, taking into account the principles of fairness, openness and equality.

Section 14. Ancillary Services in a Transmission System

A transmission system operator may provide ancillary services independently or purchase them. In purchasing the ancillary services, the transmission system operator shall take into account the criteria of efficiency, as well as the principles of equality and fairness in order to provide, within limits, a free competition in the purchase of ancillary services. The transmission system operator shall disclose the conditions of the purchase of the ancillary services, which are related to the responsibility of the system.

Section 15. Long-term Safety of Electricity Supply

(1) A transmission system operator shall draft a report regarding the assessment of the conformity of the transmission system supply and consumption and the safety and provision of State electricity supply with the production capacities (hereinafter – assessment report) for a time period of up to 10 years. The assessment report shall include a forecast of the electricity and capacity demand for at least the next 10 years, an evaluation of conformity of the respective supply and consumption in the reporting period and a forecast for the next 10 years, information regarding the conformity of the transmission system with the demand, maintenance quality, information regarding the constructed and intended production capacities, as well as measures which shall be performed in case of maximum demand and in case of shortage of one or more suppliers.

(2) A transmission system operator shall submit an assessment report to the Ministry and the Regulator once a year. The Cabinet shall determine the procedures, following which the transmission system operator elaborates and submits the assessment report to the Ministry and the Regulator, and the requirements with regard to the content of the assessment report.

(3) A transmission system operator is entitled to request and receive information necessary for the drafting of an assessment report from all the system participants.

Section 16. Tariffs of the Transmission System Services

(1) The tariffs of the transmission system services (hereinafter – transmission tariffs) shall be determined by the Regulator in accordance with the procedures prescribed in the Law On Regulators of Public Utilities or by the transmission system operator in accordance with the methodology of tariff calculation determined by the Regulator if a permission of the Regulator has been received. The transmission tariffs shall be published prior to the entry into effect thereof in accordance with the procedures specified by the Regulator.

(2) Transmission tariffs shall not depend on the distance between the location of a user and a producer. Other differences in tariffs are permissible if the Regulator has specified such differences in the methodology of the tariff calculation.

Chapter V Distribution

Section 17. Distribution System

(1) A distribution system shall include medium- and low-voltage distribution networks and equipment, which are used to supply electricity to users and in which voltage is less than 110 kilovolts.

(2) Access to the distribution system shall also provides for the use of the transmission system services within the territory of Latvia.

Section 18. Distribution System Operator

(1) The Regulator shall determine the operation area of a licence of each distribution system operator. The Regulator has the right to alter the borders of the operation area of the already issued licences.

(2) The overlapping of the licence operation areas of distribution system operators is not allowed.

(3) A distribution system operator may participate in the trade of electricity in cases when the purchase and sale of electricity is required to supply the associated users, to cover the electricity losses in the distribution system or for the needs (final consumption) of the distribution system operator itself.

Section 19. Independence of a Distribution System Operator

(1) A distribution system operator shall be a separate capital company with the status of a permanent legal person and shall be separated from the activities of production, transmission and trade of electricity.

(2) The independence of a distribution system operator shall be ensured by taking into account the following conditions:

1) persons who are responsible for the management of the distribution system operator shall not engage in the structures of a vertically integrated electricity merchant, which are directly or indirectly responsible for the production, transmission and trade of electricity in the daily activities;

2) persons who are responsible for the management of the distribution system operator shall be provided with a possibility to act and take decisions independently;

3) the management of the distribution system operator shall be ensured with the right to take decisions regarding the assets necessary for the exploitation, maintenance or development of the distribution system without reference to the vertically integrated electricity merchant and the dominant undertaking. It does not prohibit the formation of relevant co-ordination mechanisms in order to ensure the protection of the economic and managerial supervision rights of the dominant undertaking with regard to the return on the assets of the distribution system operator. The dominant undertaking is permitted to approve the annual financial plan of the distribution system operator, or financial planning documents similar thereto, and to determine general restrictions regarding the debt commitments of the distribution system operator, but it is not permitted to give instructions regarding the daily activities and decisions regarding the construction and installation or modernisation of the distribution system if such construction and installation or modernisation does not exceed the conditions of the approved financial plan or financial planning documents similar thereto; and

4) the distribution system operator shall elaborate a compliance programme, in which duties of concrete employees are specified and measures, which are performed in order to prevent discriminatory action, and provide adequate control of the compliance with thereof. Each year the distribution system operator shall submit a report to the Regulator regarding the measures carried out, and such report shall be published in accordance with the procedures specified by the Regulator. After the evaluation of the report the Regulator shall provide an opinion regarding the sufficiency of the performed measures for ensuring independence. The distribution system operator shall eliminate the deficiencies indicated in the opinion of the Regulator within the time period determined by the Regulator.

(3) The Regulator shall determine, taking into account this Section, the minimum requirements for ensuring the independence of the distribution system operator.

(4) The requirements of this Section shall not be applied to the operators of such distribution systems to which less than one hundred thousand users are connected, but such operators shall ensure the separation of accounts of the performed activities in accordance with Section 38-40 of this Law and the functional separation, observing the following minimum requirements:

1) separate structural units, which are responsible for the distribution and trade of electricity and which operate as separate profit centres, shall be established;

2) employment contracts with the managers of the structural units shall be concluded, in which precise and unequivocal reasons for discontinuation of such contracts are indicated;

3) the management of a distribution structural unit may not fulfil duties, which are related to the work of a trade structural unit and vice versa; and

4) the conditions, which may promote the rotation of employees among structural units, shall be eliminated as far as possible.

Section 20. Tariffs of the Distribution System Services

(1) The tariffs of the distribution system services (hereinafter – distribution tariffs) shall be determined by the Regulator in accordance with the procedures prescribed in the Law On Regulators of Public Utilities or by the distribution system operator in accordance with methodology of tariff calculation determined by the Regulator if a permission of the Regulator has been received. The distribution tariffs shall be published prior to coming into force thereof in accordance with the procedures specified by the Regulator.

(2) The distribution tariffs within a single licence operation area shall not depend on the distance between the location of a user and a producer. Differences in tariffs are allowed between the levels of voltage and consumption if they are economically justified and are the same to all users of the relevant voltage and consumption level group.

Section 21. Property of the Distribution System Operator

A distribution system operator in fulfilling the duties thereof may use only such fixed assets, which are in the ownership thereof or are rented.

Chapter VI Introduction of New Capacities

Section 22. Amplification of the Production Capacity

(1) A permit of the Ministry shall be required for the amplification of production capacities and the introduction of new production equipment. The Cabinet shall determine the

requirements, which must be fulfilled in order to receive the permit, as well as the procedures for issuing, cancelling or extending the validity period of the permit. (2) The permit shall be issued or refused within a period of 30 days after the receipt of all the necessary documents. In the case of refusal, a justification of the refusal shall be provided in writing.

(3) A refusal shall be justified only by non-compliance of a submission with the specified requirements. A submitter of the submission may appeal against the refusal in accordance with the procedures prescribed in the Administrative Procedure Law.

(4) The construction of the production capacities shall take place in accordance with the procedures specified in regulatory enactments.

Section 23. Competition

(1) If it follows from the assessment report drafted by a transmission system operator and referred to in Section 15 of this Law that the insufficiency of production capacities endangers the safety of the State electricity supply within or outside Latvia and if it is not possible to compensate for this shortage in accordance with the procedures specified in Section 22 of this Law, the Ministry shall announce a competition regarding the introduction of new production capacities or the reconstruction of the existing equipment in order to amplify the capacity thereof.

(2) The Cabinet shall adopt a decision regarding the announcing of a competition. The object of the competition shall be the right to enter into a long-term electricity supply contract.

(3) The Regulator shall announce and organise a competition. The competition shall be announced in the Official Journal of the European Union not later than six months prior to the expiration of the term for submitting submissions. The documentation of the competition shall include:

- 1) detailed provisions of the intended contract;
- 2) the requirements for the applicants; and
- 3) a list of the criteria for selecting a winner and entering into a contract therewith.

(4) A public trader specified in Section 33 of this Law shall enter into a long-term electricity supply contract with a winner of a competition.

Section 24. Electricity Production in the Production Capacities Introduced in accordance with the Competition Procedures

(1) Electricity shall be procured from a producer's power plant the capacity of which is introduced in accordance with the procedures specified in Section 23 of this Law on the basis of a long-term contract, which is concluded between a public trader and a producer as a result of the competition specified in Section 23 of this Law.

(2) A public trader shall calculate separately the volume and the expenses of such electricity, which has been procured from the producer specified in Paragraph one of this Section. The expenses of such procurement shall be covered by all electricity end users in Latvia in proportion to the electricity consumption thereof by purchasing from the public trader a definite portion of the electricity produced by the producer specified in Paragraph one of this Section or by compensating the expenses of the procurement thereof. The Cabinet shall specify the procedures for covering the procurement expenses, but the Regulator – the methodology of expense distribution calculation.

Section 25. Construction of Lines

(1) In order to construct a cross-border connection with voltage of 110 kilovolts and more for the transportation of electricity a permit of the Regulator shall be required. The Regulator shall specify impartial and equal criteria for the issuance of the permit for the construction of the cross-border connection.

(2) A distribution system operator has the right to construct a distribution line within the area of the licence operation thereof.

(3) Another person who is not a distribution system operator has the right to construct a distribution line within the licence operation area of a distribution system operator if the line, which is being built, is:

1) a direct line; or

2) an internal line of a separate immovable property.

(4) If the line referred to in Paragraph three, Clause 2 of this Section complies with the technical requirements specified in the Network Code, a distribution system operator shall connect this line to the relevant distribution system for a connection fee, which is determined by a system operator in accordance with the methodology for the calculation of a connection fee specified by the Regulator and in accordance with the system connection regulations approved by the Regulator.

Section 26. Direct Line

(1) A producer has the right to supply electricity to users or own objects by using a direct line connection.

(2) The Regulator shall issue a permit for the construction of a direct line connection. The Regulator shall specify impartial and equal criteria for the issuance of the permit for the construction of the direct line connection.

(3) A permit for the construction of a direct line connection shall be issued or refused within a period of 30 days after the receipt of all the documents specified by the Regulator.

Chapter VII Electricity Production and Price Determination

Section 27. Price of Electricity

The producers, traders and users shall determine the price of electricity by mutual agreement, except the cases provided for in this Law.

Section 28. Electricity Production in the Process of Co-generation

(1) A producer who produces electricity in the process of co-generation may acquire the right to sell the produced electricity within the framework of the mandatory procurement.

(2) The Cabinet shall prescribe the criteria for the qualification of co-generation power plants for acquiring the right specified in Paragraph one of this Section, the procedures for the mandatory procurement and the supervision thereof, the procedures for the determination of electricity price depending on the electric capacity of a co-generation plant and the fuel used, the procedures for covering the mandatory procurement expenses and the procedures for refusing the right to sell the produced electricity within the framework of the mandatory procurement.

(3) If a producer wishes to utilise the right specified in Paragraph one of this Section and the co-generation power plant thereof conforms to the criteria specified by the Cabinet, all surplus of the produced electricity, which is left after using the electricity for own needs, shall be procured by a public trader for a price determined in accordance with the procedures specified in Paragraph two of this Section.

(4) Producers whose co-generation power plants have started the production of electricity prior to the coming into force of this Law and which have not utilised the right specified in Paragraph three of this Section shall sell the electricity to a public trader in accordance with such conditions regarding the operation mode, support terms and price, which were applicable to such power plants at the moment of the coming into force of this Law.

(5) A public trader shall calculate separately the volume and expenses of the electricity procured in accordance with the procedures specified in Paragraphs three and four of this Section. The expenses of such procurement shall be covered by all electricity end users in Latvia in proportion to their electricity consumption by purchasing from the public trader a definite portion of the electricity produced in co-generation power plants or by compensating the expenses of the procurement thereof. The Cabinet shall specify the procedures for the coverage of the procurement expenses, but the Regulator – the methodology of the expense extension calculation.

(6) A producer who utilises the right specified in Paragraphs one and four of this Section may waive the utilisation thereof at any time, informing the public trader three months in advance.

(7) Co-generation power plants which conform to the criteria determined in accordance with the procedures specified in Paragraph two of this Section may receive a proof of origin of the produced electricity in accordance with the procedures specified by the Cabinet. An institution authorised by the Cabinet shall issue the proof of origin.

Section 29. Production of Electricity by Using Renewable Energy Resources

(1) A producer who produces electricity by using renewable energy resources may acquire the right to sell the produced electricity as the volume of electricity to be mandatorily procured.

(2) A definite part of the total consumption of the electricity end users in Latvia shall be mandatorily covered by the electricity, which is produced by using renewable energy resources. The Cabinet shall determine such part for each type of the renewable energy resources for a time period of five years, beginning with 1 January 2006, so that by 31 December 2010 the percentage proportion of such part in relation to the total electricity consumption reaches not less than 49.3 per cent.

(3) A public trader shall calculate the volume of the electricity to be mandatorily procured and the electricity produced by using renewable energy resources for each year in accordance with the part determined by the Cabinet in the total user consumption and publish it on the Internet home page thereof and in the newspaper “*Latvijas Vēstnesis*” [the official Gazette of the Government of Latvia].

(4) The Cabinet shall specify the conditions for the production of electricity by using renewable energy resources, as well as the criteria for the qualification of producers for the receipt of the right specified in Paragraph one of this Section and the procedures for waiving thereof, the procedures for the determination of the electricity price depending on the type of the renewable energy resources, the procedures for the determination, implementation and supervision of the mandatory procurement amount, the procedures for covering the expenses of the mandatory procurement amount, as well as the measures for promotion of electricity production from the biomass.

(5) Producers who conform to the criteria determined in accordance with the procedures specified in Paragraph four of this Section may receive a proof of origin of the produced

electricity in accordance with the procedures specified by the Cabinet. An institution authorised by the Cabinet shall issue the proof of origin.

(6) A producer who utilises the right specified in Paragraph one of this Section, including the producer referred to in Section 30, Paragraph one of this Law, may waive the utilisation thereof at any time, informing the Regulator and a public trader three months in advance.

(7) The provisions of this Section and Section 30 shall not apply to hydroelectric power stations the capacity of which is more than 5 megawatts.

Section 30. Purchase and Sale of Electricity Produced by Using Renewable Energy Resources

(1) The producers who use renewable energy resources for the production of electricity and have started the operation prior to the coming into force of this Law shall sell electricity to a public trader in accordance with such provisions regarding the operation mode, procurement terms and price, which applied thereto at the moment of the coming into force of this Law.

(2) A public trader shall procure such part of the electricity volume to be mandatorily procured, which is not covered by electricity procurements from the producers specified in Paragraph one of this Section, from any producer which produces electricity by using renewable energy resources. Electricity shall be procured from such producers following the principle of economic gradualness and in accordance with a contract in which the producer and the public trader have reached an agreement regarding the electricity production regime, electricity price and the time period of operation of the contract, which may not be less than five years and more than 10 years. The Regulator shall specify the procedures for the application of the principle of economic gradualness.

(3) A public trader shall calculate separately the volume and expenses of the electricity procured in accordance with the procedures specified in Paragraphs one and two of this Section. The expenses of such procurement shall be covered by all electricity end users in Latvia in proportion to their electricity consumption by purchasing from the public trader a definite part of the electricity, which is produced by using renewable energy resources, or by compensating the expenses of the public trader. The Cabinet shall specify the procedures for covering the procurement expenses, but the Regulator – the methodology of the expense extension calculation.

Section 31. Producer Right of Choice

If a power plant of a producer may simultaneously apply for the use of the rights specified in Sections 28, 29 and 30 of this Law, the producer may use only one of the referred to rights of his or her own choice.

Chapter VIII Trade of Electricity

Section 32. Basic Principles of the Trade of Electricity

(1) The following persons may be engaged in the trade of electricity:

1) a producer of electricity, which uses one or several producing units in one or several locations and which has been issued a licence for the production of electricity;

2) a distribution system operator to the distribution networks of which less than one hundred thousand users are connected if the requirements of Section 19 of this Law have been observed; and

3) an electricity trader who has received a licence.

(2) The Regulator shall issue a licence to an electricity trader in accordance with this Law and the Law On Regulators of Public Utilities.

(3) Electricity supply to the associated users for the tariffs determined by the Regulator or for the tariffs determined by the relevant service provider in accordance with the methodology for the calculation of tariffs determined by the Regulator, if a permit of the Regulator has been received, and in accordance with the conditions put forward by the Regulator shall be provided by:

1) a public trader; and

2) a distribution system operator to the distribution networks of which less than one hundred thousand users are connected, including an associated user.

(4) The Regulator shall determine, what information and to what extent a system operator shall include in the bills and informative materials to be issued to an end user.

(5) The Cabinet shall specify the procedures for supplying and discontinuing of the electricity supply to users, the rights and duties of traders, system operators and users in the supply and use of electricity, as well as in payments for the received services, and the procedures for change of traders.

Section 33. Public Trader

(1) One public trader shall operate in the territory of Latvia, and it shall be established by a merchant who has a distribution licence with the largest area of operation in Latvia and whose number of users connected to the networks thereof is the largest in Latvia.

(2) A public trader shall have the following duties:

1) to supply electricity to all associated users throughout the territory of Latvia. The public trader shall supply electricity to the associated users, who are connected to a network of a distribution system operator – the establisher of the public trader – in accordance with the procedures specified by the Cabinet. The public trader shall ensure the electricity supply of the associated users connected to the networks of other distribution system operators by selling the volume necessary for the supply of such associated users to the relevant distribution system operator;

2) to procure electricity produced in the co-generation process in accordance with the procedures specified in Section 28 of this Law;

3) to procure electricity, which is produced by using renewable energy resources, in accordance with the procedures specified in Sections 29 and 30 of this Law;

4) to procure electricity necessary for the supply of the associated users;

5) to procure electricity in accordance with the procedures specified in Section 24 of this Law; and

6) to fulfil the duties of the final guaranteed supplier.

(3) The Regulator or – if a permit of the Regulator has been received – a public trader in accordance with the tariff calculation methodology specified by the Regulator shall determine the tariffs for the associated end users and the distribution system operators referred to in Section 32, Paragraph three of this Law. Such tariffs shall be published prior to the coming into force thereof in accordance with the procedures specified by the Regulator.

(4) A public trader shall elaborate, submit for the approval of the Regulator and, in accordance with the procedures specified by the Regulator, publish the approved standard

contract for electricity supply, the rules of operation and the procedures for the procurement of electricity necessary for the supply of associated users.

Section 34. Final Guaranteed Supplier

(1) All household users and other users who conform to the requirements specified by the Cabinet are entitled to receive a universal service.

(2) The users specified in Paragraph one of this Section have the right to discontinue the utilisation of the right of choice of a supplier and to receive electricity from a final guaranteed supplier after they have used the user right of choice and have become market participants. The last guaranteed supplier is a public trader, and it does not have the right to refuse to supply such users with electricity, except the cases referred to in Paragraph three of this Section.

(3) A public trader has the right to refuse to supply electricity to the user specified in Paragraph one of this Section if the public trader has renewed the duty thereof to be an electricity supplier to such user more than two times in the last 12 months.

Section 35. Right of the End Users to Change Traders of Electricity

(1) An electricity end user, who has a connection to a transmission system, has the right to change an electricity trader without restrictions, notifying in advance the trader with which he or she has concluded an electricity trade contract. A term for the notification shall be determined in the electricity trade contract by mutual agreement of the user and the trader.

(2) An electricity end user, which has a connection to a distribution system, has the right to change an electricity trader (electricity supplier) by taking into account the following conditions:

1) by notifying in writing the trader with which he or she has concluded an electricity trade contract at least three months in advance; and

2) by notifying in writing the system operator to the network of which such user has been connected regarding the change of the trader at least three months in advance.

Section 36. Liability for Balancing

(1) In Latvia, a transmission system operator shall ensure the balancing. The transmission system operator shall provide the service of balancing to users directly connected to the transmission system, electricity producers and distribution system operators. The relevant distribution system operator shall provide the service of balancing to users directly connected to the distribution system, electricity producers and other distribution system operators.

(2) Each electricity producer and user who is a market participant and each distribution system operator shall enter into a contract with the relevant system operator regarding the supply of the balancing electricity and the provision of a balance between the electricity entered into a network and the electricity consumed at any time.

Section 37. The Balancing and Calculations of Balancing

(1) In accordance with the Network Code, the system operators shall perform calculations of balancing openly and without discrimination with respect to all recipients of a balancing service. The users and producers, who are market participants, and distribution network operators 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.

- (2) Calculations of balancing shall be performed on the basis of the accounting of electricity transactions performed in a definite period in order to determine the volume of the balancing electricity. The calculations of balancing shall be available to the market and system participants involved in the transaction, ensuring the protection of commercial secret.
- (3) A system participant shall provide a system operator with information, which is justly necessary for the balancing and performing the calculations of balancing.
- (4) A system operator may request guarantees from system participants in order to ensure the payments for the balancing service in accordance with the criteria and procedures elaborated by the system operator and approved by the Regulator.

Chapter IX Accountancy

Section 38. Separation of Accounts

- (1) A system operator shall separate the internal accounts of an electricity supply merchant by drafting a balance sheet, a profit-and-loss account and a cash flow statement separately for each licensed type of energy supply.
- (2) Accountancy shall be separated in the same way as if each of the activities referred to in Paragraph one of this Section were performed by a separate, independent merchant.
- (3) The balance sheet, the profit-and-loss account and the cash flow statement referred to in Paragraph one of this Section shall be derived from the annual account of a system operator, which has been drafted in accordance with the Law On Annual Accounts of Undertakings.

Section 39. Submission and Publishing of Accountancy Statements

- (1) A system operator shall submit the balance sheet, the profit-and-loss account and the cash flow statement drafted in accordance with the procedures specified in Section 38 of this Law to the Regulator not later than one month after the approval of an annual account in accordance with the procedures prescribed in the Law On Annual Accounts of Undertakings.
- (2) The Regulator shall specify the procedures by which a system operator shall provide users with public access to the balance sheet, the profit-and-loss account, the cash flow statement and other financial information prepared in accordance with the procedures specified in Section 38 of this Law.

Section 40. Prohibition of Cross-Subsidies

- (1) The activities, which a market participant performs by transferring expenses or other liabilities among electricity production or trade and transmission, distribution or other type of commercial activity, shall be regarded as cross-subsidies.
- (2) Cross-subsidies are prohibited.

Transitional Provisions

1. Paragraphs one and two of Section 19 of this Law shall come into force on 1 July 2007.
2. Paragraph two of Section 35 of this Law regarding household users shall come into force on 1 July 2007.

3. Until 1 July 2007 all distribution system operators shall apply Section 19, Paragraph four of this Law in the activities thereof.

4. Section 21 of this Law shall come into force on 1 January 2015.

5. The Cabinet shall issue the Regulations referred to in Paragraph three of Section 9, Paragraph two of Section 15, Paragraph one of Section 22, Paragraphs two and seven of Section 28, Paragraphs two and four of Section 29, Paragraph three of Section 30, Paragraph five of Section 32, Paragraph two of Section 33 and Paragraph one of Section 34 by 1 January 2006. Until the day of coming into force of these Regulations the following Cabinet Regulations shall be applied as far as they do not contradict this Law:

1) the 22 October 1996 Cabinet Regulation No. 413, Regulations for Supply and Use of Electricity;

2) the 21 September 1999 Cabinet Regulation No. 326, Regulations regarding Eligible Electricity Customers;

3) the 8 January 2002 Cabinet Regulation No. 9, Requirements for Co-generation Stations and Procedures by which Purchase Price of Surplus Electricity Produced shall be Determined; and

4) the 15 January 2002 Cabinet Regulation No. 29, Procedures for Installation and Location of Electric Power Generation Capacities if Renewable Energy Resources are Utilised for Electric Power Generation.

6. The Regulator shall issue the regulatory enactments specified in Paragraph two of Section 8, Paragraph three of Section 12, Paragraph three of Section 19, Paragraph three of Section 30 and Paragraph two of Section 39 of this Law by 1 January 2006.

7. The Network Code approved by the Regulator in accordance with Section 28, Clause 8 of the Energy Law shall be applied until the approval of the Network Code.

8. The Network Code referred to in Paragraph two of Section 4 of this Law and the criteria and procedures for requesting the guarantees referred to in Paragraph four of Section 37 shall be submitted to the Regulator for approval by 1 January 2006.

9. The Cabinet shall issue regulations for thermal energy supply and utilisation and gas supply and utilisation by 1 January 2006. Until the day of coming into force of these Regulations the following Cabinet Regulations, which have been issued in accordance with Section 5, Paragraph two of the Energy Law, shall be applied:

1) the 28 February 1995 Cabinet Regulation No. 41, Regulations for Supply and Use of Thermal Energy; and

2) the 20 January 1998 Cabinet Regulation No. 23, Regulations for Supply and Use of Gas.

Informative Reference to European Union Directives

These Regulations contain legal norms arising from:

1) Directive 2001/77/EC of the European Parliament and of the Council of 27 September 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market;

2) Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC; and

3) Directive 2004/8/EC of the European Parliament and of the Council of 11 February 2004 on the promotion of co-generation based on a useful heat demand in the internal energy market and amending Directive 92/42/EEC.

The *Saeima* has adopted this Law on 5 May 2005.

President

V. Vīķe-Freiberga

Rīga, 25 May 2005