District heating system regulation and particularities, Latvian case

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Types of regulated public services in the heat sector

- Production of thermal energy
- Transmission and distribution of thermal energy
- Trade of thermal energy to energy users
Types of authorisation

- Licensing – transmission & distribution
- Registration – production and sales

On March 31, 2016:

209 companies - registered in the Thermal Energy Producers’ Register
80 companies - registered in the Thermal Energy Traders’ Register

73 companies - licensed to provide heat transmission and distribution services.
The procedure how public utilities tariffs are calculated and set is determined by the tariff calculation methodology that is developed and approved by the Regulator.

The tariff calculation methodology is based on the principle to base tariffs only on those costs that are necessary for efficient provision of services.
Types of tariffs

- Thermal energy generation tariffs
- Thermal energy transmission and distribution tariffs
- Thermal energy trade tariffs

The sum of the above mentioned tariffs forms the final thermal energy tariff and is used for billing the customers – users of thermal energy.
The main principles of heat tariff calculation methodology

- Maximum allowed profitability 10%, if efficiency criteria are met
- Encourages heat loss reduction
- Promotes fuller capacity utilization
- Introduced cost reduction benefit component
How tariff proposals are evaluated?

COMPANY
The producer of thermal energy

TARIFF PROPOSAL

If costs are unjustified

REGULATOR

If costs are unjustified, tariff is reduced

BILLS
INVOICES
CONTRACTS
PROCUREMENT DOCUMENTS
OTHER DOCUMENTS
**Evaluation of a tariff proposal**

1. **Evaluation**
   - no more than **90 days**
   - Time needed for recalculation of a tariff proposal and preparation of additional information **is not counted** in the evaluation period

2. **Decision making**
   - no more than **30 days**

3. **Publication**
   - within **10 days**
   - Publications:
     - official journal
     - home page
     - sent to local authority

4. **Entry into force**
   - no sooner than **30 days**
   - after the publication of tariffs in the official journal

Regulator organises a public hearing

Additional suggestions on the tariff proposal may be submitted within 20 days since the publication of information on the tariff proposal or during the public hearing.
What kind of costs are included in thermal energy tariffs?

NATURAL GAS

- FUEL COSTS
  - 60-80%
- ELECTRICITY
  - 2-5%
- WAGES
  - 5-10%
- DEPRECIATION AND REPAIRS
  - 0-10%
- OTHER COSTS AND TAXES
  - 5-8%
- PROFIT
  - 40-50%

WOODCHIPS, FIREWOOD

- FUEL COSTS
  - 40-50%
- ELECTRICITY
  - 5-10%
- WAGES
  - 20-30%
- DEPRECIATION AND REPAIRS
  - 10-20%
- OTHER COSTS AND TAXES
  - 2-8%
- PROFIT
  - 20-30%
Thermal energy final tariffs in April, 2016, EUR/MWh

- **Natural gas**
- **Wood products**
- **Combined fuels**

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<th>Natural gas</th>
<th>Wood products</th>
<th>Combined fuels</th>
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<tr>
<td>Riga</td>
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Natural gas sector: free trade from April 2017

The setting of tariffs will be changed

Amendments in the methodology are necessary
THANK YOU!

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Sabiedrisko pakalpojumu regulēšanas komisija