

The Governance of Regulators

Second Progress Review of Latvia's Public Utilities Commission

DRIVING PERFORMANCE



The Governance of Regulators

Second Progress Review of Latvia's Public Utilities Commission

DRIVING PERFORMANCE

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:

OECD (2024), *Second Progress Review of Latvia's Public Utilities Commission: Driving Performance*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/cbc2afd5-en>.

ISBN 978-92-64-52246-6 (print)
ISBN 978-92-64-39797-2 (PDF)
ISBN 978-92-64-76437-8 (HTML)
ISBN 978-92-64-95737-4 (epub)

The Governance of Regulators
ISSN 2415-1432 (print)
ISSN 2415-1440 (online)

Photo credits: Cover © Leigh Prather/Fotolia.com; © Mr. Vander/Fotolia.com; © magann/Fotolia.com.

Corrigenda to OECD publications may be found at: <https://www.oecd.org/en/publications/support/corrigenda.html>.

© OECD 2024



Attribution 4.0 International (CC BY 4.0)

This work is made available under the Creative Commons Attribution 4.0 International licence. By using this work, you accept to be bound by the terms of this licence (<https://creativecommons.org/licenses/by/4.0/>).

Attribution – you must cite the work.

Translations – you must cite the original work, identify changes to the original and add the following text: *In the event of any discrepancy between the original work and the translation, only the text of original work should be considered valid.*

Adaptations – you must cite the original work and add the following text: *This is an adaptation of an original work by the OECD. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of the OECD or of its Member countries.*

Third-party material – the licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission from the third party and for any claims of infringement.

You must not use the OECD logo, visual identity or cover image without express permission or suggest the OECD endorses your use of the work.

Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012. The seat of arbitration shall be Paris (France). The number of arbitrators shall be one.

Foreword

Economic regulators play a crucial role across sectors, driving the efficient delivery of essential services for the benefit of society. They balance often competing interests to find the optimal outcome. Regulators can ensure that decisions are made with evidence and integrity, promoting the predictability and stability that sectors need to develop. They work to improve the accessibility, affordability and quality of services for users.

Recent crises and transitions, such as those linked to the COVID-19 pandemic, the rising cost of living, and the green and digital transitions, have made the work of regulators both more challenging and more prominent in public debate. This context has arguably increased the value of the work of economic regulators and the importance of their governance, to keep sectors on track towards long-term objectives.

The OECD has developed the Performance Assessment Framework for Economic Regulators (PAFER) to support regulators in assessing their organisational performance and governance structures, based on the OECD *Best Practice Principles on the Governance of Regulators*. The framework analyses regulators' internal and external governance, including their role and objectives, human and financial resources, processes, and outputs and outcomes.

In 2016, the OECD carried out a PAFER review of Latvia's Public Utilities Commission (PUC) that resulted in the report *Driving Performance at Latvia's Public Utilities Commission*. Since then, the PUC has invited the OECD twice to assess its progress against the review's recommendations. The progress review fulfils a legal requirement introduced in 2017 for the PUC to undergo an independent review of its activities every three years. A first progress review of the PUC was published in 2021. This second progress review focuses on the period from 2020 to 2023.

The review finds that the PUC has made good progress in several areas to improve its governance and performance. It did so while navigating significant changes in context and new challenges, which may warrant a broader governance review in the future to identify emerging areas of attention. Advancements include the introduction of key performance indicators to measure performance against strategic objectives, a fully operational Advisory Council and the use of interactive data-driven reports and tools to improve communication. At the same time, several areas of opportunity still exist. To continue its progress, the PUC should define targets for its performance, advocate for clear criteria and procedures to review the regulatory fee that funds the regulator, and use tailored and proactive communication to increase awareness and understanding on the role of the PUC and its regulatory decisions.

This report is part of the OECD work programme on the governance of regulators and regulatory policy, led by the OECD Network of Economic Regulators (NER) and the OECD Regulatory Policy Committee (RPC), with the support of the Regulatory Policy Division of the OECD Directorate of Public Governance. The Directorate's mission is to help government at all levels design and implement strategic, evidence-based and innovative policies that support sustainable economic and social development. The report was presented to the NER for comments at its 22nd meeting in April 2024. It was approved by the Regulatory Policy Committee on 12 July 2024 and prepared for publication by the Secretariat.

Acknowledgements

This report was prepared by the OECD Public Governance Directorate (GOV) under the leadership of Elsa Pilichowski, Director. The report was co-ordinated and drafted by Vincent van Langen, under the guidance and supervision of Martha Baxter, in the Regulatory Policy Division (REG). It was prepared with the encouragement and support of Gillian Dorner, Deputy Director of GOV, Anna Pietikäinen, Head of REG, and Daniel Trnka, Deputy Head of REG. Substantive comments on the report were provided by Anna Pietikäinen. Jennifer Stein co-ordinated the editorial process and Andrea Uhrhammer provided editorial support.

The report would not have been possible without the support of the PUC and its staff. The OECD would like to thank, in particular, the following colleagues for their assistance in collecting data and information, for their support in organising and conducting the mission to Riga, as well as for providing feedback at different stages of the review: Alda Ozola, Chair of the Board of Commissioners, Intars Birziņš, Imants Mantiņš, Rota Šņuka and Anna Upena, Commissioners, Jānis Miķelsons, Executive Director, Lija Makare, Head of International Relations, and Maruta Purviņa, Deputy Director of the Economic Analysis Department. Special thanks are also extended to representatives from the internal PUC teams and external stakeholders that participated in fact-finding interviews and provided data and information that contributed to the analysis presented in the report.

Table of contents

Abbreviations and acronyms	6
Executive summary	8
1 Implementation of the 2016 PAFER recommendations	10
Introduction	11
Institutional and sector context	11
Assessment of progress on the 2016 recommendations	16
References	40
Notes	47
Annex A. At a glance: Progress on 2016 Recommendations	49
Annex B. Methodology	52

FIGURES

Figure 1.1. The evolution of the PUC's strategic goals over time	17
Figure 1.2. Regulatory fee revenues by sector	25
Figure A B.1. The OECD Best Practice Principles on the Governance of Regulators	54
Figure A B.2. Input-process-output-outcome framework for performance indicators	56

TABLES

Table 1.1. Ministries relevant to the external governance of the PUC	12
Table 1.2. Revenues and expenses, actual and projected 2021-26	26
Table 1.3. PUC total staff count and turnover rate	27
Table 1.4. PUC Board composition and term length	29
Table 1.5. KPIs in the PUC's strategy for 2022-26	35
Table A B.1. Criteria for assessing regulators' own performance framework	55

Abbreviations and acronyms

ACER	Agency for the Cooperation of Energy Regulators
BALTREG	Baltic Electronic Communications and Postal Services Regulators' Meeting
BEREC	Body of European Regulators for Electronic Communications
CEER	Council of European Energy Regulators
CPI	Consumer Price Index
DSO	Distribution System Operator
ERGP	European Regulators Group for Postal Services
ERRA	Energy Regulators Regional Association
ESCOSA	Essential Services Commission of South Australia
EU	European Union
HHI	Herfindahl-Hirschman Index
HR	Human resources
ICER	International Confederation of Energy Regulators
IRG	Independent Regulators Group
IT	Information technology
LLC	Limited liability company
LMT	Latvian Mobile Telephone (<i>Latvijas Mobilais Telefons</i>)
LNG	Liquefied natural gas
LVRTC	Latvian State Radio and Television Centre (<i>Latvijas Valsts radio un televīzijas centrs</i>)
MoCE	Ministry of Climate and Energy
MoE	Ministry of Economics
MoEPRD	Ministry of Environmental Protection and Regional Development
MoF	Ministry of Finance
MoT	Ministry of Transport
NER	Network of Economic Regulators
OECD	Organisation for Economic Co-operation and Development
PAFER	Performance Assessment Framework for Economic Regulators
PUC	Public Utilities Commission
RIA	Regulatory impact assessment
RPI	Retail Price Index

TOTEX	Total expenditure
TSO	Transmission System Operator
US	United States
VAS	State Joint Stock Company (<i>Valsts akciju sabiedrība</i>)
WAREG	European Water Regulators

Executive summary

The Public Utilities Commission (*Sabiedrisko pakalpojumu regulēšanas komisija* – PUC) is Latvia's economic regulator for energy, e-communications, post, water, waste management and packaging deposit services. Established in 2001, the PUC oversaw the liberalisation of utility sectors and has worked to promote better quality, affordability and efficiency.

The OECD conducted an in-depth review of the PUC's governance and performance in 2016 according to the OECD's *Performance Assessment Framework for Economic Regulators* (PAFER). The PUC invited the OECD twice to track progress on recommendations since, demonstrating its commitment to excellence.

The progress review finds that the PUC has continued to implement OECD recommendations since the last review. It identifies progress on all recommendations, with more than half fully implemented or with good progress. The main areas of progress since 2020 include the introduction of key performance indicators (KPIs) to measure progress on strategic objectives, a fully operational Advisory Council and the use of interactive data-driven tools and reports to communicate with stakeholders.

Progress had been made more difficult in recent years due to a changing and challenging context. Shocks from the COVID-19 pandemic and Russia's war of aggression against Ukraine have significantly affected the sectors under the PUC's responsibility. The review identifies some areas that the PUC could focus on to continue its progress. These areas include i) the regulator's use of communication and engagement, ii) performance reporting, and iii) funding and staffing arrangements.

Communication and engagement

Previous recommendations included clarifying the regulator's goals and priorities, assessing how to participate in the policymaking process and setting up a consultative council to consult on the regulator's strategy. Significant progress has been noted in these areas.

Assessment of progress on key recommendations and suggestions for the way forward

- The PUC's Advisory Council is fully operational and positively perceived by stakeholders; it can be strengthened by keeping an eye on balanced representation and making meetings more member-led.
- While the PUC's contributions to the policymaking process still consume significant resources, the regulator took an important step to signal its independent role by publicly issuing its opinions.
- The PUC's new strategy continues the shift towards a user-centric approach, but it remains unclear how the regulator decides and communicates on trade-offs in decision making. The PUC could tailor communication in its engagement with different stakeholder groups to increase awareness of the regulator's role and explain the balancing of interests in its decision making.

- The PUC engages frequently with stakeholders to inform its decisions but could more proactively co-ordinate with other public bodies to flag any issues or impacts that go beyond its own mandate, to improve role clarity, signal its independence and support the overall effectiveness of public policy.

Performance reporting

Previous recommendations included developing a performance assessment matrix, introducing more regular exchanges with parliament (the *Saeima*) and using performance data and information to communicate with key stakeholders. Strong progress has been made in some areas, while there remains more scope for improvement in other areas.

Assessment of progress on key recommendations and suggestions for the way forward

- The PUC made strong progress by introducing KPIs after consultation with stakeholders, and now needs to define targets and a clear methodology to enable tracking of progress on its strategic objectives and to maximise accountability.
- The PUC frequently interacts with parliamentary committees but could advocate for an annual in-person reporting by the regulator to the *Saeima* plenary on its strategy and performance.
- The PUC uses interactive tools and reports to share insights on the performance of the regulator and sectors with stakeholders in an accessible format and is on track to report on KPIs in the future.

Funding and staffing arrangements

Previous recommendations included advocating for an alternative fee-setting process, investigating the impact of the salary cap and developing a “total rewards approach” to increase job attractiveness. The first progress review already noted significant progress in these areas, but advancements have been more limited since.

Assessment of progress on key recommendations and suggestions for the way forward

- The PUC successfully advocated for an alternative fee-setting process in 2017 to reduce the risk of undue influence, but there remains a need for clear criteria and procedures for reviewing the fee level to ensure cost-reflectivity in a context of volatile sector revenues.
- A new salary cap allows PUC salaries to track sector salaries, but the regulator now needs to assess and enhance its broader attractiveness as an employer beyond financial remuneration.
- The regulator continues to offer a balanced employment package, although its efforts to build a positive work environment could be affected by the structural impact from the COVID-19 pandemic on operations.

1

Implementation of the 2016 PAFER recommendations

This chapter first provides an overview of the main changes in the institutional context and the sectors regulated by the PUC over the past three years. It then provides an extensive analysis of the progress made by the regulator in implementing the 2016 OECD recommendations since the first progress review in 2020. The chapter concludes by outlining the main lessons learnt by the regulator in the process of implementing the OECD recommendations and identifying areas of focus moving forward.

Introduction

The Public Utilities Commission (*Sabiedrisko pakalpojumu regulēšanas komisija* – PUC) is Latvia's economic regulator for energy, e-communications, postal, water, waste management and packaging deposit services. Since its establishment in 2001, the PUC oversaw the liberalisation of utility sectors and has worked to promote better quality, affordability, and efficiency. More recently, shocks from the COVID-19 pandemic and Russia's war of aggression against Ukraine have significantly impacted sectors under the PUC's responsibility. This context has motivated the regulator to find new ways to regulate effectively and increased public scrutiny of its performance.

This report notes important steps taken by the PUC to implement OECD recommendations regarding its governance. The PUC underwent a review of its governance and performance in 2016, using the Performance Assessment Framework for Economic Regulators (PAFER) (OECD, 2016^[1]). The PUC invited the OECD back to monitor progress on recommendations in 2023 – after a first stocktake in 2020 – exemplifying its commitment to excellence (OECD, 2021^[2]). The current report does not constitute a full review of the PUC's governance beyond the earlier recommendations. However, it considers changes in context and new challenges when assessing progress and providing guidance. The report identifies progress on all earlier recommendations, with more than half fully implemented or with good progress.

The progress review is structured in three sections. The first section looks at the institutional and sector context in which the PUC operates, identifying any changes since 2020. The second section assesses progress made on recommendations from the 2016 review and provides recommendations for the PUC to continue moving forward. Finally, the third section discusses lessons learnt and the way forward.

Institutional and sector context

This section discusses the changes in the context in which the PUC operates over the period 2020-2023 (between the previous progress review and the current one), looking at the institutional framework and the sector structure. A more extensive discussion of the regulatory context can be found in the 2016 publication *Driving Performance at Latvia's Public Utilities Commission* and the 2021 publication *Progress Review of Latvia's Public Utilities Commission* (OECD, 2016^[1]) (OECD, 2021^[2]).

Institutional framework

Due to its broad multisectoral mandate, the PUC conducts its regulatory activities in co-ordination with a wide range of ministries. These ministries are responsible for sectoral policies, hold ownership in several regulated entities and, in the case of the Ministry of Finance, are responsible for supervising the regulator's budget proposal. An overview of the main ministries that the PUC engages with and their functions is provided in Table 1.1.

The main change in the institutional context since 2020 is the establishment of the Ministry of Climate and Energy (MoCE) as of 1 January 2023. This ministry is responsible for energy and climate policy, taking over functions from both the Ministry of Economics (MoE) and the Ministry of Environmental Protection and Regional Development (MoEPRD).

Table 1.1. Ministries relevant to the external governance of the PUC

	Policy responsibilities connected to the PUC	Ownership positions in sectors overseen by the PUC
Ministry of Climate and Energy (MoCE)	• Energy	• Augstsprieguma tīkls (electricity TSO, 100%)
Ministry of Transport (MoT)	• E-communications • Postal services	• Latvijas Valsts radio un televīzijas centrs (LVRTC) (radio and tv broadcasting and data infrastructure, 100%) • Latvijas Pasts (universal postal service provider, 100%)
Ministry of Environmental Protection and Regional Development (MoEPRD)	• Water • Waste management • Deposit system for beverage containers	
Ministry of Economics (MoE)		• Latvenergo (energy utility, 100%) • Sadales tīkls (electricity DSO, 100%) • Latvijas Gāze (gas utility, <0.1%) • Rīgas Siltums (heat provider, 49%)* • Tet (telecom services provider, 51%) • LMT (mobile services provider, 5%)**
Ministry of Finance (MoF)	• PUC budget	

Note: The table includes a summary the main responsibilities and ownership positions within the sectors overseen by the PUC. It is not an exhaustive overview of all ministerial responsibilities or state ownership in Latvia.

* In addition to the 49% held by the Ministry of Economics in Rīgas Siltums, 49% is held by the Riga city municipality (Rīgas Siltums, 2024^[3]).

** In addition to the 5% held by the Ministry of Economics in LMT, 23% is held by Tet and 23% is held by LVRTC, both majority state-owned enterprises with shares held by the Ministry of Economics and the Ministry of Transport respectively (LMT, 2024^[4]).

Source: Information provided by the PUC.

Energy

The Latvian gas market is undergoing processes of regional integration and market liberalisation. The Finnish, Estonian and Latvian (“FinEstLat”) gas markets merged in 2020 by creating a common entry-exit transmission system, removing internal tariffs in the region. Furthermore, Latvia developed a common gas balancing zone together with Estonia (ACER, 2022^[5]). The process of further market integration, by merging the FinEstLat market with the Lithuanian market, has been postponed to October 2024 due to the current geopolitical context (PUC, 2022^[6]). The Latvian gas market has been fully liberalised, and starting from 1 May 2023 the regulated household tariff for gas was eliminated. Users have the choice between contracts with flexible or fixed tariffs as offered by suppliers. All suppliers are obliged to offer a “universal service” contract with tariffs fixed for six months which can be terminated at any point, to ensure a suitable offer for “passive users” that do not change suppliers (PUC, 2023^[7]).

While COVID-19 caused some shifts in energy consumption, the largest shocks in the past years were due to Russia’s war of aggression against Ukraine and the instability this brought to energy markets. These developments had a significant impact on the operations of the Latvian energy sector and led to sharp price increases in all segments (gas, electricity and heat):

- **Electricity:** Latvia has stopped the commercial electricity trade with Russia, although some minor technical electricity exchange still takes place as the electricity system is synchronised with the Russian system. A process of desynchronisation from the Russian system towards synchronisation with the European system is underway. Baltic states already stopped the electricity trade with Belarus in 2020, following the operationalisation of the Astravjets nuclear power plant in the country.

- **Gas:** Gas imports from Russia were banned in Latvia from 1 January 2023. This required a change in gas flows and a need for new gas infrastructure in the region, in particular an LNG terminal in Finland.
- **Heat:** Latvia stopped the trade in biomass fuel (woodchips, pellets, etc.) with Belarus, which was one of the main sources for wood products. This led to strong price increases and speculation on an undersupply.

The affordability of energy services has become a pressing concern in Latvia. In response to strong increases in energy prices, schemes have been introduced to protect vulnerable users and counteract energy poverty. The PUC made adjustments to its tariff methodologies to make tariffs more responsive by allowing them to adapt more quickly to energy price changes (Saeima, 2022^[8]). The PUC also faced criticism over an increase in electricity tariffs in 2023 (PUC, 2023^[9]) (Box 1.1).

Box 1.1. Public debate on electricity tariffs

A PUC tariff decision for electricity distribution system operator (DSO) Sadales tīkls led to an increase in tariffs, but also a redistribution of costs across users. The proposal included a change in the tariff methodology, to improve the alignment between tariffs and the DSO's underlying costs. In the new proposal, a higher share of total costs was charged through the fixed tariff component, based on a user's connection capacity. As a result, users with a relatively low consumption level compared with their connection capacity saw a more significant tariff increase.

The change led to a debate on the merits of the regulator's decision, which introduced threats to the PUC's independence. Several political actors criticised the decision, based on its social implications, and some suggested more fundamental changes to the regulator's board and organisation in response to the decision. Others emphasised the role of the regulator within the institutional framework to set cost-reflective tariffs, while social responsibilities lie with policymakers. The PUC defended its decision, stressing its task to balance the interests of consumers and companies and noting how it excluded unreasonable costs from the tariffs.

Changes in regulation and legislation have since reduced the impact from the tariff decision and introduced new requirements regarding transparency and tariff methodologies. In November 2023, the PUC adjusted its tariff methodology to allow for a faster downward revision of tariffs in January 2024, based on a drop in inflation and electricity prices. In the same month, the Saeima approved legislative amendments, introducing a formal requirement for the regulator to report on energy tariffs, costs and revenues through its annual report, and for operators to include tariff forecasts in their 10-year network development plans. In addition, the amendments required the regulator to define the maximum level projected costs are allowed to deviate from tariffs for the fixed tariff component before a new tariff proposal should be submitted. Specifically for electricity distribution tariffs, maximum deviation levels for the period until 31 December 2025 were already defined in legislation.

Source: (LSM, 2023^[10]) (Saeima, 2023^[11]) (TV NET, 2023^[12]) (LA, 2023^[13]) (PUC, 2023^[14]) (Saeima, 2023^[15]) (Saeima, 2023^[16]) (Saeima, 2023^[17]).

Beyond these exogenous crises, some changes in sector ownership took place over the past years. The electricity transmission system asset owner was merged with the transmission system operator (TSO), meaning the TSO now holds all transmission assets. In the heat sector, a process of administrative-territorial reform that reduces the number of administrative areas resulted in the merger of some utilities (see Water management for a further discussion of the administrative-territorial reform).

Electronic communications

In July 2022, the new Electronic Communications Law entered into force (Saeima, 2022^[18]). This law transposes the European Electronic Communications Code into Latvian legislation (LV Portals, 2022^[19]). In the preparation of the law, the PUC provided opinions into the legislative process and worked together with Saeima committees. The PUC adopted a set of 20 regulatory acts to implement the new legislation, all of which were subject to public consultation (PUC, 2023^[20]). The main changes resulting from this new legislative package include the following:

- The PUC amended the regulation for the use of the radio frequency spectrum and the allocation of rights by auction (PUC, 2022^[21]) (PUC, 2022^[22]). The PUC grants rights to use the limited radio frequency spectrum, while other radio frequency spectrum bands are granted and managed by VAS Elektroniskie Sakari, a state-owned company (VAS Elektroniskie sakari, n.d.^[23]).
- The PUC became responsible for the management of the National Numbering Plan, a function it took over from VAS Elektroniskie Sakari. Before the change, the PUC was already responsible for assigning and cancelling numbering resources. A National Numbering Plan was developed by the regulator in 2022 (PUC, 2022^[24]). The PUC also set instructions for telecom providers on how they should deal with possible cases of numbering fraud (PUC, 2022^[25]).
- The PUC is responsible for the supervision of the quality of internet access, voice services and television services, for which it improved the methodology for quality measurement (PUC, 2022^[26]). Under the new law, the PUC is responsible for ensuring free access to a comparison tool – which includes information on prices and quality for internet and number-based communication services – in case such a comparison tool is not already available to users.
- Following the enforcement of the new law, there is no longer the possibility of special discounts for vulnerable consumers, such as end-users with disabilities (PUC, 2022^[27]).

The COVID-19 crisis led to an increase of 20% in mobile traffic and 10-30% for fixed internet connections, but none of the service providers encountered network congestion. The pandemic led to a slight increase in consumer complaints regarding the quality of internet services, where the PUC asked providers to agree with the user on a discount in cases with non-compliant quality. In 2022, the PUC observed that remote working continued to have a significant impact on the sector.

Postal services

In 2022, the delivery of subscribed press became part of the universal postal services in Latvia (Saeima, 2021^[28]). Previously, the universal postal services included only domestic and international letter correspondence and smaller parcels. The universal postal services provider, Latvijas Pasts, is allowed to be compensated from the state budget for the full net costs¹ (or loss) incurred for providing the universal postal services, based on a calculation as approved by the PUC (Saeima, 2023^[29]).

During the COVID-19 crisis, the number of parcels increased sharply, by 107%. At the same time, the number of letters and subscribed press deliveries decreased by 45% and 19% respectively. Following the lifting of the COVID-19 restrictions, the number of parcels decreased slightly, but remained well above the level that was seen prior to the COVID-19 crisis. The number of letters and subscribed press deliveries continued to decrease.

Water management

The structure of the water sector changed following an administrative territory reform in Latvia in 2021 that reduced the number of local government administrations. This reform reduced the number of administrative territories from 119 (110 municipalities and 9 “republican cities”) to 43 (36 municipalities and 7 republican

cities) (LV Portals, 2022^[30]) (Saeima, 2022^[31]). This led local governments to consider the merger of multiple water providers in a territory into a single provider. The merging of service providers into a single provider was motivated by the potential improvements in efficiency and financial sustainability this could bring. Since the implementation of the new system on 1 July 2021, the PUC has updated its register on public service providers 14 times to record changes in the market structure.

The Latvian water sector was also affected by the rising energy prices that followed the start of Russia's war of aggression against Ukraine. While the average share of energy costs in total costs, as reflected in tariffs, was 14% for 2021, this increased to 25% in 2022. As a result, the regulator conducted 53 tariff reviews in 2022 to incorporate energy price rises, where this used to be just 8 to 10 reviews a year before. Often, changes were made through a faster tariff review process, where companies were able submit new tariff proposals based on only the change in energy costs, leaving other costs unchanged. In some cases, companies chose to first submit a fast tariff proposal to already incorporate changes in energy prices, before submitting a full tariff proposal considering all costs. At the end of 2022, the regulator also made amendments in the tariff methodology, allowing companies to self-determine their tariffs. Under the new rules, companies publish self-determined tariffs in the state gazette and at the same time submit their underlying calculations and justification to the regulator. The PUC has 21 days to review the tariffs and tariffs enter into force after 30 days. The methodology includes provisions for changes in energy prices, where water companies can compensate unexpected revenues and expenses in relation to their energy costs in future tariffs and are obliged to revise their tariffs based on changes in energy prices if the resulting change in tariff would be larger than 10% (PUC, 2023^[32]).

Waste management

Latvia intends to decrease the amount of waste deposited at landfills to just 10% by 2035 (down from 64% in 2019) and increase the share of waste that is recycled. To put the country on track towards these goals, it defined a Waste Management Plan for the period 2021 to 2028 and amended the Waste Management Law (Cabinet of Ministers, 2021^[33]) (Saeima, 2023^[34]). Based on the amended law, the PUC became responsible for determining the tariff for the processing of unsorted municipal waste. In 2023, there was also a reduction in the number of waste management regions from ten to five regions (Cabinet of Ministers, 2023^[35]).

The operations of waste management service providers were impacted by Russia's war of aggression against Ukraine and higher energy prices. In July 2022, the mandatory electricity supply with state support was terminated, and service providers could use the energy obtained from landfill gas either for own use or offer it on the market. Some waste management service providers are currently self-sufficient in their energy needs, through the production of electricity and heat energy, and a few more are expected to become self-sufficient over the course of 2024 with the operationalisation of biodegradable waste treatment plants. Other waste management service providers still buy their energy from external suppliers. A surge in prices for secondary raw materials in mid-2022 provided additional revenues that helped operators withstand some fluctuations in the energy prices. However, when prices dropped again, several providers ended the year with losses and had to undergo financial restructuring.

Deposit system for beverage containers

The deposit system for beverage containers was introduced through an amendment to the Packaging Law in 2019, and the PUC was appointed as its regulator (Saeima, 2021^[36]). In 2021, the company LLC Depozīta Iepakojuma Operators was selected as the operator of the deposit system by the State Environment Service. The deposit system started operating in February 2022, where the PUC holds responsibilities for supervision of the activities of the operator and the approval of the deposit system participation fee paid by product manufacturers to participate in the deposit system. The PUC approved the participation fee for the deposit system for the first time in February 2023.

Assessment of progress on the 2016 recommendations

Role and objectives

The role and objectives dimension within the Performance Assessment Framework for Economic Regulators (PAFER) looks at the regulator's mandate, function and powers, its co-ordination with other public bodies, its strategic planning and independence. The PUC has made significant progress on recommendations in this area since 2021, most notably by developing key performance indicators and creating an Advisory Council that is fully operational and widely appreciated. To strengthen progress in this area further, the PUC could consider ways to fine-tune its use of incentive regulation and promote member-led meetings of the Advisory Council.

Recommendation: Focus on high-level goals and outcomes

The 2016 review recommended that the strategic framework should start with high-level goals, such as consumer welfare and competition, and include key outcomes that the PUC aims to achieve over the medium term. The review also recommended the PUC to develop a matrix on how it uses its functions and powers to achieve the envisaged goals, with intermediate performance indicators.

The 2021 progress review noted moderate progress on this recommendation. The PUC refocused its strategic objectives in its 2018-2021 strategy to include a stronger focus on goals and outcomes, rather than simply the execution of functions. The PUC also developed an Annual Action Plan with an operational and strategic part, including yearly strategic priorities. Moving forward, the progress review recommended to further invest in measuring its progress and improving accountability. The regulator could advance by creating a performance assessment matrix that links goals and priorities to outputs and outcomes. This matrix should identify intermediate performance indicators to measure progress on strategic objectives.

Assessment of progress

The PUC's new strategy maintains a focus on high-level goals and outcomes and introduces KPIs to track progress, which the regulator can strengthen by defining targets.

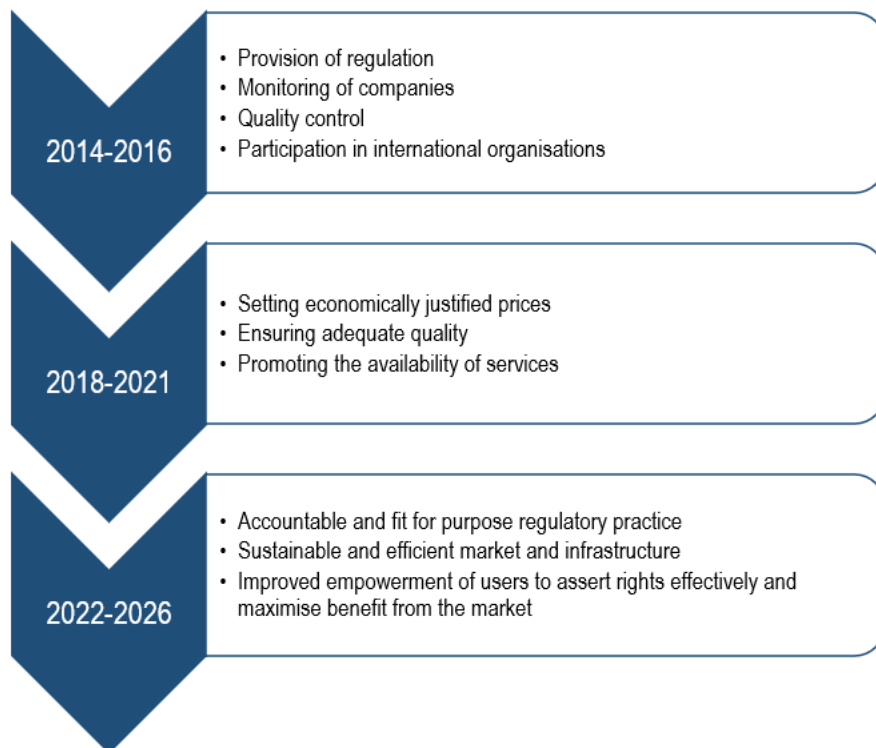
The PUC adopted a new organisational strategy for the period 2022 to 2026 (PUC, 2022^[37]). Both its mission and vision evolved from the previous strategy, with stronger emphasis on the sector outcomes that the regulator aims to achieve.² In the 2018-2021 strategy, the regulator set three strategic priority directions, focusing on service affordability, quality and availability (PUC, 2018^[38]). In the 2022-2026 strategy, its strategic goals focus on the PUC's regulatory practice, sector sustainability and efficiency, and user empowerment (Figure 1.1). For each strategic goal, the regulator defined several strategic tasks. In developing the strategy, the regulator held meetings with a wide range of stakeholders and its Advisory Council, to receive their input on the regulator's strategic directions.

Unlike in previous strategies, the 2022-2026 strategy includes a set of key performance indicators (KPIs) that the regulator will use to track performance on its strategy. This can enable the regulator to link goals and priorities to outputs and outcomes, and to measure progress. The introduction of the KPIs is an important step to improve the regulator's accountability on its strategy and to allow the PUC leadership to monitor the regulator's performance. However, there are currently no target levels defined for the strategic indicators, thereby leaving it unclear what progress stakeholders may expect over the course of the strategic period or what progress will be measured against.

Moving forward on this recommendation, the regulator could enhance transparency by measuring the base values for the performance indicators, and by defining and communicating targets for each of the indicators in consultation with the Advisory Council. This can give stakeholders the means to assess the regulator's performance in achieving strategic goals over time (see Recommendation: Develop a performance assessment matrix that links goals and priorities to outputs and outcomes).

Figure 1.1. The evolution of the PUC's strategic goals over time

Comparison of the strategic priority directions or goals for the periods 2014-16, 2018-2021 and 2022-2026



Source: Driving Performance at Latvia's Public Utilities Commission, OECD Publishing, Paris; PUC (2018), The Public Utilities Commission's Operational Strategy 2018-2021; Public Utilities Commission Strategy 2022-2026.

Recommendation: Clarify goals and priorities

The 2016 review recommended using the strategic planning framework to clarify the PUC's goals and priorities. It recommended that if the PUC intends to pay particular attention to consumer welfare, it should show this as a clear priority in its strategic framework and move towards an outcome-focused approach that takes into account current and future consumers. It also urged the regulator to clarify how it will balance consumer welfare and the interests of the public utilities.

The 2021 progress review noted good progress on this recommendation. The 2018-2021 strategy of the PUC included a set of three strategic priorities that focused on outcomes for consumers. For each strategic priority, the strategy listed the key objectives it aimed to achieve. Moving forward, the progress review recommended the PUC to explain more clearly how it will balance consumer and public utility interests in its decision making. This could include explaining the meaning of the concept of "economically justified prices", in light of the incentive regulation that is being implemented by the regulator in some of the sectors.

Assessment of progress

The PUC's new strategy continues the shift towards a user-centric approach, but it remains unclear how the regulator decides and communicates on trade-offs in decision making.

The PUC 2022-2026 strategy strengthens the regulator's focus on users of regulated services and their empowerment. Where the earlier mission emphasised a balance between user and industry interests, the new mission highlights the market outcomes it aims to achieve for users. Moreover, where the earlier vision was inward-looking, focusing on the regulator itself, the new vision emphasises the rights of users in

regulated sectors. The regulator's focus on user empowerment is shown by a new strategic goal for the regulator under the strategy to ensure "improved empowerment of users to assert rights effectively and maximise benefit from the market". As part of this strategic goal, the regulator lists three tasks, focusing on education of citizens and providers, the use of easy-to-understand information and an effective approach to resolving issues faced by users. In line with this objective, the regulator undertook several consumer education campaigns and improved the accessibility of publications by making these shorter and less technical.

While the strategy includes a stronger focus on users, it is unclear how this strategic focus translates into the regulator's decision making. The regulator notes the need for public communication with all parties to understand their needs and expectations. However, it did not explain how it will balance these different interests. This will be important especially for the use of incentive regulation, in which the regulator may have more discretion to determine the "strength" of its regulation (for example, in the way it scrutinises costs and shares the burden of inefficiencies between users and operators) than would be the case under cost-plus regulation. While the regulator no longer mentions the concept of "economically justified prices" as part of its objectives, its mission refers to an aim of setting "economically reasonable prices". This aim is based on a legislative requirement from the Law on Regulators of Public Utilities to set tariffs in line with economically substantiated costs. However, the regulator does not explain further in its strategy what should be understood to be "economically reasonable".

The regulator stresses the importance of regulatory impact assessment (RIA) for decisions that affect many stakeholders, to balance interests effectively. The PUC did not yet implement a unified methodology on how to conduct regulatory impact assessments. Instead, the method is decided on a case-by-case basis. Most RIAs conducted by the regulator consider economic and legal impacts, such as the cost of implementation or tariff effects. In some RIAs, the regulator also considers alternative regulatory options. The regulator has made most progress in the energy sector, where an economic impact assessment tool is used to evaluate economic and financial impacts of tariff and methodology changes. This allows the regulator to assess the financial impact on consumers' spending, the consumer price index and state budget.

Moving forward on this recommendation, the regulator should clearly communicate how it balances the different user and industry interests in its decision making, such as in tariff decisions and the regulator's use of incentive regulation. The PUC could streamline its use of regulatory impact assessments and expand its use across sectors, by developing guidelines on the method of assessment for different types of decisions. The PUC could use these impact assessments to identify impacts for different stakeholder groups (such as tariff effects). These findings can be used to understand the consequences of decisions by regulators, including any social impacts that may go beyond the regulator's mandate but are within the remit of other public bodies (such as ministries) (Box 1.2). It could then make further use of differentiated communication for different stakeholder groups to explain how it balances these interests (Box 1.3), based on the insights gained through regulatory impact assessments. A discussion on what economically justified prices are, and how the regulator intends to determine these, will be a key component given the importance of this concept in the regulator's strategy and work.

Box 1.2. People-centred regulatory policy

Regulation by governments and regulators in utility sectors can have a powerful impact upon human welfare and can affect different groups in different ways. For example, it can affect how people heat their homes or access transportation services, and can also affect inequalities among different groups. To understand these impacts on wellbeing, governments need to go beyond assessing economic factors in regulatory impact assessments (RIAs), to estimate broader social impacts and, to the extent

possible, distributional impacts. Economic regulators may be able to contribute to this government-wide effort, by highlighting the various impacts of their decisions and by flagging any adverse impacts of their decisions that are outside their own mandate to other bodies. This can support better informed decision making, while respecting the different roles and responsibilities of public actors.

Despite some progress across OECD members, there is more to do for governments. The OECD 2021 Regulatory Policy Outlook has found that most OECD countries require an assessment of social impacts, such as impacts on poverty. However, assessments of social impacts remain both less developed and implemented than those for economic or budgetary factors. One example of integrating social impacts into RIA can be seen in Ireland, where the assessment of impacts on socially excluded and vulnerable groups, and on poverty generally, is explicitly considered within the RIA system. Another example is the European Commission's Better Regulation Toolbox, which underscores the importance for governments to consider how regulatory options can affect people's income or risk of poverty as well as the income distribution and wealth.

Addressing the impact of rulemaking upon human welfare is a complex task, requiring adequate resources, time, and data, which often are scarce. Additionally, governments face the challenge of balancing the achievement of public policy objectives, while navigating trade-offs. Guidance and communities of practice can support countries in assessing social impacts. In 2023, the United States' National Science and Technology Council established a new Subcommittee on Frontiers of Benefit-Cost Analysis as a technical community of practice where federal agencies can share knowledge and expertise on advancing benefit-cost analysis. The US Office of Information and Regulatory Affairs also revised its guidance on cost-benefit analysis. The revised guidance acknowledges that the benefits of regulations may fall unevenly across society, but may also be valued differently across groups, and discusses possible approaches to take this into account.

Source: (OECD, 2021^[39]), OECD Regulatory Policy Outlook 2021, OECD Publishing, Paris, <https://doi.org/10.1787/38b0fdb1-en>; OIRA (2023), Circular No. A-4, <https://www.whitehouse.gov/wp-content/uploads/2023/11/CircularA-4.pdf>; European Commission (2023), Better regulation toolbox, https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox/better-regulation-toolbox_en.

Box 1.3. Economic regulators engaging with the media – The Essential Services Commission of South Australia

The Essential Services Commission of South Australia (ESCOSA) undertakes economic regulation in the water and sewerage, electricity, gas, maritime and rail industries, provides advice to local councils and to the South Australian Government on economic and regulatory matters and conducts formal public inquiries.

In its regulatory decision making and delivery, as well as in relation to its operational practices, ESCOSA undertakes a wide range of consultation with stakeholders, including utility consumers, regulated businesses, industry bodies, government, Ministers, Members of Parliament, policymakers, and the media. As part of its ongoing stakeholder engagement and communication, ESCOSA proactively engages with local and national media. Including the media as a stakeholder is vital for ESCOSA to achieve its goals of effective regulation, consumer engagement and public trust. By fostering a strong relationship with the media, ESCOSA aims to facilitate transparency and accurate reporting and maintain a positive public image. Strategically engaging with media can also play an important role in achieving compliance outcomes: explaining what constitutes good or poor behaviour can both educate

and encourage businesses to comply, provide deterrence incentives and enhance consumer confidence in markets.

Remembering that the work of an economic regulator may not always be front of mind for either community members or the media, regular media engagement allows ESCOSA to educate journalists about regulatory matters and ESCOSA's role, objectives, and decision-making processes. This supports unbiased reporting and enhances the likelihood of the public receiving accurate information. Additionally, ESCOSA gains opportunities to directly address the public through interviews and press releases and increases the likelihood of being sought out for comment in media pieces. Proactive media engagement allows ESCOSA to control the narrative, particularly when it comes to potentially unpopular regulatory decisions. In this way, ESCOSA can explain the reasoning behind its actions before any negative narratives may take hold.

Ongoing media presence and engagement is crucial for building public awareness of ESCOSA's work. It fosters transparency, builds public trust and awareness, and allows ESCOSA to effectively communicate its work and decisions to the South Australian community.

Source: Information provided by ESCOSA.

Recommendation: Ensure that regulatory functions are fit for purpose

The 2016 review recommended that incentive regulation could be used by the PUC to improve outcomes such as efficiency, accessibility and quality. It found that the PUC mostly relied on cost-plus regulation, which lacks an incentive mechanism to improve the efficiency of operators. In addition, it assessed that the regulator's impact on the determination could increase by granting the regulator the power to amend tariff proposals.

The 2021 progress review noted good progress on this recommendation. The Latvian parliament (Saeima) gave the regulator the power to use incentive regulation in the energy sector and to amend tariff proposals where costs were not sufficiently justified. The traditional cost-plus approach to regulation remained in use in the other sectors under the PUC's purview, although the PUC started considering the introduction of incentive regulation in heat supply. Moving forward, the progress review recommended to further develop and fine-tune the efficiency incentives it sets, to ensure accuracy and objectivity. It highlighted the use of *ex post* evaluations to assess the effectiveness of the new system.

Assessment of progress

Fine-tuning the use of incentive regulation in the energy sector has not significantly progressed due to a turbulent sector context, while incentive regulation has not been introduced in other sectors.

The regulator's application of incentive regulation in electricity and gas sectors has remained relatively unchanged. The tariff methodology for electricity and gas transmission and distribution defines a cost efficiency ratio that is applied to the operators' income for the regulatory period, based on a proposal by the respective operator. Operators are able to keep 50% of the cost savings they make during the regulatory period, thereby providing an incentive to improve operational efficiency (PUC, 2022^[40]) (PUC, 2022^[41]) (PUC, 2022^[42]) (PUC, 2023^[43]). The regulator did so far not make use of *ex post* evaluations to assess the effectiveness of its use of incentive regulation.

The PUC's use of incentive regulation in the energy sector could be affected by recent legislative amendments (see Box 1.1 under Institutional and sector context). These require the regulator to define a maximum level that projected costs are allowed to deviate from tariffs before a new tariff proposal should

be submitted. For electricity distribution, the maximum deviation levels are already defined in legislation for the first two years, thereby limiting the regulator's autonomy in tariff setting. While the amendments aim to avoid large discrepancies between tariffs and underlying costs, they may also reduce efficiency incentives. Incentive regulation relies on the possibility for operators to retain some additional benefit for a certain period if they can surpass envisaged goals, such as in terms of cost efficiency (Box 1.4). By limiting the possibility of deviations between costs and tariffs, and the duration for which tariffs are fixed, incentives to cut costs could also be weakened.

The PUC made one significant change to fine-tune its tariff methodology, by adjusting its method to calculate capital costs in 2022 (PUC, 2022^[44]). This new methodology applies to sectors with incentive regulation and those without. The new methodology defines unified principles for calculating asset values and capital costs.³

Since the progress review, the PUC has not expanded its use of incentive regulation to other sectors, but the regulator is working on changes to its methodology for the water and district heating sector. The COVID-19 crisis and Russia's war of aggression against Ukraine required the regulator to focus on the continuity and cost of service delivery. The regulator adjusted methodologies to incorporate effects from both crises on sectors. For example, the regulator made changes to its methodology to calculate electricity distribution tariffs to ensure operators can recover their costs in a context of dramatic energy price rises and inflation (PUC, 2022^[45]). The methodology through which the regulator sets the district heating tariffs already contains some elements of incentive regulation. This methodology includes a provision for district heat providers to keep certain costs savings in their tariffs for up to three years, thereby creating an incentive to reduce costs, but this mechanism is not yet applied in practice (PUC, 2022^[46]).

Moving forward on this recommendation, the PUC could consider alternative approaches to setting efficiency targets, to improve their objectivity and strengthen the resulting incentives and impact. In light of an information asymmetry between providers and regulator in the regulatory context, as well as a lack of external comparison, it may be difficult for the regulator to verify the accuracy of any proposed level of efficiency savings. The regulator may be able to use its strong international engagement to bring in experience from other countries in defining efficiency targets, to find the method most appropriate for the Latvian regulatory context. In this effort, the regulator should consider the potentially negative incentives that could result from an efficiency incentive only on specific cost categories, which may result in cost substitution rather than overall cost efficiency. It should also assess the potential impact from new legislative amendments to cap deviations between costs and tariffs on the incentives for operators to cut costs. The regulator could take these considerations into account when defining the maximum deviation levels. Moreover, the regulator should consider expanding the use of incentive regulation across other sectors under its supervision.

Box 1.4. The different approaches to incentive regulation

Incentive regulation is a regulatory approach that introduces some form of incentive (or “carrot”) for regulated entities to achieve a set of goals or objectives such as cost efficiency or quality. The use of incentive regulation is an alternative to the traditional “cost-plus” approach, in which all realised costs incurred by regulated entities are passed on to users without strong efficiency incentives.

There are different approaches to incentive regulation, which include:

- **Profit sharing:** this approach passes some share of the excess profits or shortfalls of regulated entities back to users, through refunds or reductions in future tariffs. Due to its *ex post* nature, this approach requires a close monitoring of profits of regulated entities but does not require an estimate of efficiency improvements.

- **Price or revenue cap:** under this system, prices or revenues for the regulated entities are fixed *ex ante* by the regulator for an upcoming period. Often, price or revenue caps are based on an “RPI-X” (or “CPI-X”) approach, where prices or revenues are adjusted over the course of the regulatory period based on an inflation factor and an x-factor that reflects expected efficiency improvements. Under a price or revenue cap, the profits of regulated entities depend on their ability to meet or surpass the efficiency target, by reducing their costs.
- **Yardstick regulation:** Under a yardstick approach to regulation, the prices or revenues of a regulated entity depend (fully or partly) on the costs of other comparable entities or some efficiency benchmark. This method provides an incentive to regulated entities to reduce costs, by inducing them to “compete” with other comparable entities.

In the use of incentive regulation, regulators may set separate targets for different costs categories (such as operational and capital costs) or a global target for the total costs (“TOTEX”). The main advantage of a global target is that this does not create a bias for regulated entities between different costs categories, leaving them free to decide on the most optimal cost structure.

Source: CEER (2018), Incentives Schemes for Regulating Distribution System Operators, including for innovation, <https://www.ceer.eu/documents/104400/-/-/1128ea3e-cadc-ed43-dcf7-6dd40f9e446b>; Vogelsang (2001), A 20-Year Perspective on Incentive Regulation for Public Utilities, Regulation and Investment Conference Australian Competition and Consumer Commission; Albon (2000), Incentive regulation, benchmarking and utility performance, Utility Regulators Forum.

Recommendation: Assess how to participate in the policy-making process

The 2016 review recommended that the PUC assess how to participate in the policy-making process, without posing a disproportionate burden on resources or losing sight of other functions or the regulator’s independent role. It assessed that the PUC is actively involved by issuing opinions on policy proposals and providing advice and analysis. The review noted that the PUC could issue its opinions publicly to raise awareness and signal the regulator’s independent role.

The 2021 progress review noted limited progress on this recommendation, as the mechanisms through which the regulator participates in the policymaking process have not changed. The PUC did not issue its opinions on proposals publicly, although these could be requested through the government website. Moving forward, the progress review urged the PUC to reflect on its role in the process given its independent status, and to consider issuing opinions publicly in certain cases.

Assessment of progress

While the PUC’s contributions to the policy-making process still consume significant resources, the regulator took an important step to signal its independent role by publicly issuing its opinions.

The role of the PUC in the policy-making process has not changed significantly since the previous review, where ministries continue to rely on the regulator to bring in crucial analysis and expertise on the sector. An internal analysis on the resources spent on its participation in the policy-making process showed that this function continues to absorb significant resources, in particular for the Electronic Communications and Post Department, the Energy Department and the Legal Department. This is driven by a context in which ministries may not have sufficient capacity or expertise to design changes to regulatory frameworks, asking the regulator to step in. The regulator actively participates in the process and is respected for the insights it provides.

The PUC provides direct input through informal exchanges, participates in working groups, Cabinet meetings and Saeima committees, and can also submit legislative proposals or amendments via the relevant ministries. A new government portal⁴ allows the PUC to issue its opinions publicly, which can help

the regulator to signal its independent role as a regulator and improve transparency (State Chancellery, 2023^[47]).

To move forward on this recommendation, the regulator should assess how it can best participate in the policy-making process. Due to its expertise and proximity to sector operations, the regulator is well placed to bring in objective information and data on sector performance and developments into the policy-making process. Regulators are expected to be proactive to inform and promote a better understanding of sector developments within the executive. However, unless this is explicitly provided for in legislation, the PUC should not become the adviser or *de facto* analytical capacity of ministries. The regulator should continue the positive development of issuing its opinions publicly to support trust and transparency. This will be especially important in cases where legislative proposals may not align with long-term policy goals for the sector or may threaten the PUC's independence.

Recommendation: Set up appropriate mechanisms to oversee implementation strategic framework

The 2016 review recommended the PUC to create institutional mechanisms to provide input into the development and implementation of the strategic framework. This could involve establishing an advisory board, consisting of representatives of parliament, competition and consumer authorities, regulated entities and consumers. The PUC could complement this with public consultation of its strategy and an internal steering group.

The 2021 progress review noted moderate progress on this recommendation. The PUC established an Advisory Council in 2020. The advisory council was envisaged to provide non-binding recommendations regarding the regulator's strategy and matters related to policymaking, policy implementation the preparation of regulations and planning documents. Moving forward, the progress review recommended to manage expectations around the council, in terms of PUC's involvement in the council and the input expected from the council. It noted that the council should not become involved in the regulator's day-to-day operations and regulatory decision-making and recommended a balanced representation among sectors and sector actors.

Assessment of progress

The PUC's Advisory Council is fully operational and positively perceived by stakeholders; it can be strengthened by keeping an eye on balanced representation and making meetings more member-led.

In line with its mandate, the Advisory Council acted as an important platform to obtain input into the PUC's strategy for the period 2022-2026, which was complemented by public consultation. Advisory or consultative committees can be an effective platform to channel stakeholder input into the regulator's strategic decision making, while avoiding the potential conflicts of interests that could arise if those stakeholders would be represented on a regulator's governing body (OECD, 2014^[48]). In total, the Advisory Council discussed the new strategy during 4 meetings and the public consultation process involved 22 meetings with stakeholders (PUC, 2023^[49]).

Beyond the regulator's strategy, the council discusses a wide range of topics, including sectoral developments. More recently, meeting agendas included some topics that focus on specific regulatory decisions. Meetings take place based on needs, but at least once every six months, and council members can propose agenda items to the Head of the Advisory Council and the PUC. In practice, meetings happen to take place more frequently, on average around three or four times per year. Meetings are convened by the Head of the Advisory Council, which is the Ministry of Economics since the council's establishment.

The council has a strong participation from public bodies, which hold a majority of seats and therefore have a significant impact on the council's decision making. Representatives from ministries and other public bodies make up 9 out of the total 13 representatives on the council. The legislation specified a core composition for the advisory council – ministerial, competition and consumer authority representatives and other organisations⁵ – but the PUC can approve the participation of additional organisations (Saeima, 2020^[50]). In practice, compared with the public bodies defined in legislation, only two additional bodies have joined since its establishment: the Association of Latvian Heating Enterprises and the Latvian Union of Free Trade Unions.

The PUC actively contributes to the discussions of the council through presentations on its activities. By law, the PUC performs a function as the secretariat of the council and drafts the meeting agendas, while its representatives can be invited to meetings as experts (PUC, 2023^[51]). In practice, the PUC usually provides presentations for the items on the council's agenda, making the council an important platform to channel information from the regulator to its stakeholders. However, the PUC does not participate in the council's decision making.

Moving forward on the recommendation, the PUC should consider ways to make these meetings more member-led, as opposed to the current setup where the PUC drives the meeting agenda. This could be achieved by giving more initiative to members to discuss and present on the topics they deem most important. The PUC should also consider if there is interest in additional participation from consumer and industry stakeholders or representatives of parliament, to create a more balanced representation of stakeholders on the council. The council's current composition, with a strong ministerial participation, could potentially create a channel for undue influence in the regulator's work in a context of significant state ownership in regulated sectors. This is especially important, as the council's mandate is very broad and includes discussing the preparation of regulations. As part of this initiative, the function of Head of the Advisory Council could be rotated more frequently among different stakeholder groups on the council, moving closer to the minimum term length of one year as defined in legislation.

Input

The input dimension within the PAFER framework looks at the extent to which the regulator's funding and staffing are aligned with the regulator's objectives, targets or goals, and the regulator's ability to manage financial and human resources autonomously and effectively. The PUC has made modest progress on recommendations in this area since 2021. To strengthen progress in this area further, the PUC could advocate for clear criteria to periodically revise the regulatory fee that funds the regulator and assess the impact of new ways of working on the regulator's ability to attract talent and build morale.

Recommendation: Advocate for alternative fee setting process

The 2016 review recommended an alternative process to set the regulatory fee that funds the regulator, to limit conflicts of interests and potential undue influence. The fee-setting process in place at the time of the review allowed the Cabinet of Ministers (CoM) to set the actual fee below a ceiling specified in legislation. This presented the risk of undue influence in a context of large state ownership. The review also recommended introducing a mechanism for allocating potential overpayments.

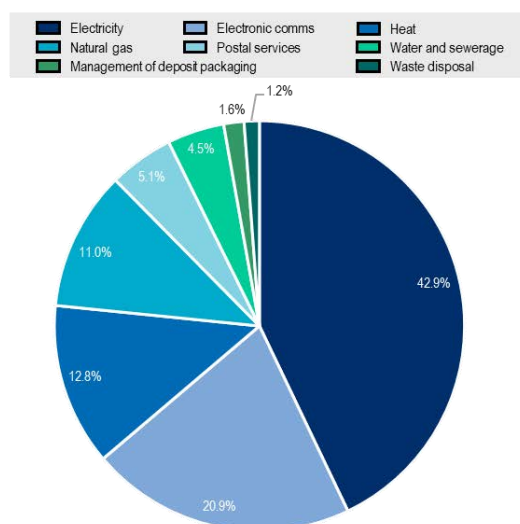
The 2021 progress review noted moderate progress on this recommendation. The PUC successfully advocated for a legislative amendment, introducing a new process to set the fee directly in legislation and removing the ability of the CoM to amend the actual fee below a threshold. This ensures fee revisions undergo parliamentary scrutiny. The amendment also included a mechanism to deposit any excess fee revenues in a special account of the regulator at the State Treasury, to be used to fund activities in later periods. Moving forward, the progress review recommended to further decrease the possibility of undue influence by advocating for clear procedures and criteria for fee revisions, to ensure its long-term cost reflectiveness.

Assessment of progress

The PUC successfully advocated for an alternative fee-setting process in 2017, but there remains a need for clear criteria and procedures for reviewing the fee level to ensure cost-reflectivity in a context of volatile sector revenues.

There have been no changes to the level of the regulatory fee that funds the regulator, nor to the procedures and criteria for its revision, since 2017. In this year, a change was made to set the fee directly in legislation, thereby providing a certain level of protection of the regulator's budget against undue influence. The regulatory fee is fixed at 0.2% of sector revenues and charged equally across all sectors under the PUC's purview, with most revenues coming from the energy sector (Figure 1.2). Since the 2021 review, the regulator did not actively advocate for clear procedures and criteria for fee revisions. Especially in the current sector context, where crises have driven more volatile energy prices and sector revenues, there is a risk that the fixed fee level is no longer cost-reflective.

Figure 1.2. Regulatory fee revenues by sector



Source: Information provided by the regulator.

The PUC can smooth out volatilities in its revenues by depositing excess fee revenues in its account at the State Treasury for use in later years. In late 2023, the regulator's savings were edging closer to the legislative cap on this account.⁶ By law, the total amount of savings in the regulator's account at the end of the year may not exceed 25% of total fee revenues for the regulator in the financial year before last. As the regulator's revenues are projected to increase in 2023 and 2024, this cap on total savings will also widen in the same proportion.

At present, PUC's financial and human resources appear to be sufficient for the regulator to execute all functions, but the regulator forecasts a budget deficit in the future. The regulatory fee revenues are initially expected to increase until 2024 and then decrease somewhat towards 2026, although they remain above the 2022 levels. This volatility is mainly explained by volatile energy prices, affecting sector revenues. The regulator expects its expenses to increase over the same period and remain high. The regulator's current projections indicate a budget deficit in 2025 and 2026, mainly due to overall wage growth in line with market salaries (Table 1.2) (Latvijas Banka, 2023^[52]). The regulator may still adjust these costs estimates in the future based on updated market research on salaries, as these projections are updated in each annual budget proposal.⁷

Table 1.2. Revenues and expenses, actual and projected 2021-26

	2021 (actual)	2022 (actual)	2023 (plan)	2024 (plan)	2025 (plan)	2026 (plan)
Revenue	5 425 460	5 046 965	6 495 586	7 145 000	6 500 000	6 500 000
Expenses	5 185 853	5 264 385	6 595 586	7 024 940	7 377 354	7 377 354
Excess revenue (+) deficit (-)	239 607	-217 420	-100 000	120 060	-877 354	-877 354
Change in revenue compared with previous year	-	- 7%	+ 29%	+ 10%	- 9%	0%
Change in expenses compared with previous year	-	+ 2%	+ 25%	+ 7%	5%	0%

Note: Values for the years 2023 and beyond are projections made by the regulator, where realisations for these years may differ.

Source: Information provided by the PUC.

The process to set the budget is unchanged, where the regulator submits a proposal to the Ministry of Finance and the regulator's budget is discussed in a meeting of the Saeima Budget and Finance Committee. The budget is then approved by the Saeima as part of the broader government budget for the new financial year. In substantiating its budget proposal, the PUC provides an overview of financial projections, as well as a discussion of its functions and performance indicators on policy and operational objectives. In expending its budget, the regulator is free to allocate its budget across activities in the different sectors in which it operates, enhancing the regulator's independence.

Moving forward on this recommendation, the PUC should continue its advocacy for clear criteria and procedures for revising the fee level and ensuring long-run cost-reflectivity. This is especially important as any revision to its regulatory fee requires the co-operation from an executive that also holds significant ownership in the entities paying the regulatory fee. The Law on Regulators of Public Services could define the criteria to assess the appropriateness of the regulatory fee, as well as a mechanism for periodic revision. It could be considered to use the annual discussions on the regulator's overall performance and budget proposal, in the relevant Saeima committees, to also periodically assess the need for any potential changes to the level of the regulator's fee. This discussion should be based on an overview of the regulator's upcoming activities and financial projections.

Recommendation: Investigate impacts of the salary cap

The 2016 review recommended investigating the long-term impacts of the salary cap. The existing system, which capped the top salaries at 4.05 times the average monthly salary in Latvia, could weaken the ability of the PUC to keep up with industry and retain talent. This remuneration system led to a significant gap in salaries for senior positions compared to the regulated sector. The review recommended discussing any challenges and opportunities with similar public institutions as the salary system was unified across public institutions.

The 2021 progress review noted good progress on this recommendation. A legislative reform in 2018 indexed the PUC salaries to salaries in energy and electronic communications sectors and improved their competitiveness. The competitiveness of PUC salaries continued to differ across staff levels, where it was negatively correlated with the staff level. Moving forward, the progress review recommended to further explore the overall effect of the salary cap on the ability of the PUC to attract and retain talent for senior positions. In this assessment, it was noted that job attractiveness is not only affected by the level of salary, but also by non-financial aspects such as the work-life balance and the quality of work.

Assessment of progress

A new salary cap allows PUC salaries to track sector salaries, but the regulator now needs to assess and enhance its broader attractiveness as an employer beyond financial remuneration.

With the new salary system in place, salaries are linked to those in the energy and e-communications sector and are updated every year. Salaries for staff cannot exceed 4.05 times the base salary paid in the e-communications and energy sector. The State Chancellery publishes the base salaries for these sectors every year, which usually leads to an increase in salaries for PUC staff. In the most recent increase of salaries, in October 2022 and January 2023, salaries were increased by 5-12%.

The attraction and retention of staff remains an important focus for the regulator, where it competes for talent with the industry and other public bodies. The regulator evaluates the competitiveness of its salaries compared with market salaries periodically, most recently in 2023. This shows a similar picture as was the case during the 2021 progress review, where salaries are below salaries in the sector for higher staff levels. The regulator evaluated all job positions together with a consultancy and collected data on salaries and bonuses for staff. In recent years, the regulator also saw staff leave to fill positions at ministries, for which a change in remuneration system increased the competitiveness of salaries by linking these to market salaries (LV Portals, 2022^[53]).⁸

Beyond participating in the remuneration survey, the regulator has not explored the overall effect of the salary cap on the ability of the regulator to attract or retain talent and overall staff turnover rate (Table 1.3). The regulator notes that the main difficulties in terms of recruitment and staff retention are related to job positions in the regulation of energy and telecommunications sectors, which require specific knowledge, skills and expertise. In addition, it identifies issues in recruiting staff in IT, in line with broader trends seen in the public service across OECD countries (OECD, 2021^[54]). The regulator notes that while salaries are indexed to sector salaries, the private sector is able to offer certain other benefits (e.g., a company car, bonuses, travel costs or team building activities). At the same time, the regulator can offer benefits such as the ability to work from home and international experience.

Table 1.3. PUC total staff count and turnover rate

Year	PUC total staff count	PUC staff turnover rate
2018	n/a	6%
2019	n/a	12%
2020	109	5%
2021	110	16%
2022	107	9%

Source: Information provided by the PUC.

Moving forward on this recommendation, the PUC should explore the impact of the non-financial benefits that it could offer on its overall ability to attract and retain talent (see Recommendation: Develop a “total rewards” approach to retain staff). Difficulties to match the sector in terms of financial rewards is seen more widely across regulators (OECD, 2022^[55]). However, this should be weighed against other perks to working at the regulator (including job stability and work-life balance), to determine the overall impact on the regulator’s ability to attract and retain talent.

Recommendation: Develop a “total rewards” approach to retain staff

The 2016 review recommended developing a “total rewards” approach to increase job attractiveness. The PUC could supplement the financial incentives that it offers to its staff members (salaries, bonuses and benefits) with non-financial incentives in terms of professional development, work-life balance, work environment and quality of work. The regulator could modify the total rewards it offers to position itself as an attractive employer.

The 2021 progress review noted that the PUC had fully implemented this recommendation. The PUC implemented a new bonus system since 2016, with financial and non-financial incentives. The new system includes an annual bonus based on performance of 55 to 75% of a monthly salary, as well as six to ten additional days of annual leave.

Assessment of progress

The regulator continues to offer a balanced employment package, although its efforts to build a positive work environment could be affected by the structural impact from the COVID-19 pandemic on operations.

The PUC is making strides in its approaches to staff appreciation and development. In 2020, the PUC updated its employee evaluation process, by making the evaluation form digitally available and more user-friendly. As part of the performance evaluation, employees evaluate together with their direct manager a set of five competencies and the employee's targets for the evaluation period. Employees have their own yearly development plan and make use of various trainings, including ones on work-life balance, leadership and feedback.⁹ A culture of independence among staff members is enhanced through the organisation of an annual Independence Day on 11 August,¹⁰ on which day the regulator's annual conference is organised.

At the same time, the COVID-19 crisis has drastically reshaped the operations of the organisation. Following a move to remote working during the pandemic, as was seen across regulators worldwide,¹¹ the move back to the office is slow. At the time of the review, staff members are required to work one day per week in the office on average and can pool office days into a single week within a month. This has reduced the on-site staff presence, to the extent that the regulator is considering downsizing its office space.

This change in operations comes with both pros and cons that can affect the overall working environment. On the one hand, the change has allowed staff members to relocate and for the regulator to recruit staff from other regions. Remote working also has the potential to bring more flexibility to staff members to organise their work and reduce travel time. On the other hand, the change could affect the ability to on-board new staff members effectively and build staff morale. Moreover, the overall impact on a staff member's work-life balance will also depend on whether remote working led to an increase in hours worked, as was seen in many countries during the pandemic, and the possibility that it blurs the boundaries between work and private life (OECD, 2021^[56]). A 2022 staff satisfaction survey found that levels of employee welfare and burnouts at the PUC were slightly worse than for staff at most Latvian ministries.

Moving forward on this recommendation, the PUC should assess the impact of new working arrangements on its ability to build staff morale and position itself as an attractive employer. In this assessment, it is important to note that experiences are likely to differ across staff members and levels, potentially requiring the regulator to fine-tune its approach. This assessment could be part of a broader assessment of the attractiveness of the organisation as an employer, considering factors such as job stability and salaries (see Recommendation: Investigate impacts of the salary cap). Understanding what attracts potential candidates to work for the PUC – by looking at the different elements that together determine employer attractiveness¹² – can feed into effective employer branding and recruitment strategies, as well as initiatives to support non-financial incentives such as a positive work environment.

Process

The process dimension within the PAFER framework looks at the existence and effective use of regulatory tools and decision-making processes, as well as the extent to which regulatory processes and organisational management support the regulator's performance. The PUC has made important progress on recommendations in this area since 2021, most notably through the full implementation of staggered board terms and the introduction of some remuneration during the cooling-off period for board members.

To strengthen progress in this area further, the PUC should consider ways to build wider “big picture” engagement with the Saeima on the regulator’s role and performance.

Recommendation: Advocate for staggered Board terms

The 2016 OECD review recommended using staggered board terms, to ensure continuity and institutional memory within the board. At the time of the review, the process dictated that all Board members were appointed to the board at the same time, with terms strictly limited to five years, and the possibility to be re-appointed once. This system meant multiple board members could be replaced at once, potentially threatening the stability of regulatory decision making.

The 2021 progress review noted that the PUC had fully implemented this recommendation. A 2020 legislative change introduced a more robust process from 2021 onwards with staggered board terms of five to seven years. The new process allowed for a maximum of two board members to have their terms confirmed or renewed within the same calendar year. Candidates are selected by the CoM through an open competition and assessed by a special committee of ministerial representatives led by the State Chancellery. The best performing candidate is recommended to the CoM for approval in the Saeima. The improvements strengthened the continuity and consistency in regulatory decision making by the Board.

Assessment of progress

The system of staggered Board terms has been fully implemented, supporting institutional memory and regulatory stability, and providing safeguards for the regulator’s independence.

Since the progress review, the Chairperson and other Board members were all appointed in July 2021 through the new process, with candidates approved by the Saeima. The duration of the term for the Chairperson and Board members were set in such a way to ensure no more than two members would have their terms end within the same calendar year, with term lengths from five to seven years and a maximum of two terms (Table 1.4). The new process ensures a staggering of terms into the future, thereby improving the PUC’s institutional memory and stability of regulatory decision making. Under the newly implemented system, mandates are at least five years, an important safeguard that can allow for knowledge and expertise development (OECD, 2017^[57]). Moreover, the term lengths of five to seven years enhance the regulator’s independence as they cut across electoral cycles, where elections for the Saeima are every four years (CVK, 2023^[58]).

Table 1.4. PUC Board composition and term length

Name	Position	Start date of current term in office	Foreseen end date of term in office	Term
Alda Ozola	Chairperson	2 July 2021	1 July 2028	First term
Anna Upena	Board Member	2 July 2021	1 July 2026	First term
Imants Mantinš	Board Member	2 July 2021	1 July 2026	Second term
Rota Šnuka	Board Member	2 July 2021	1 July 2027	Second term
Intars Birzinš	Board Member	2 July 2021	1 July 2027	Second term

Source: Information provided by the PUC.

Recommendation: Exploit the multi-sector model and facilitate mobility across departments

The 2016 review recommended that the PUC take further advantage of its nature as a multisector regulator to exchange knowledge and expertise across sectors. This could be done by facilitating mobility of staff across departments as well as through more enhanced collaboration with the Economic Analyses Department and the Legal Department.

The 2021 progress review noted moderate progress on this recommendation. At the time of the review, staff mobility took place only on a case-by-case basis, in the absence of formal mechanisms or an organisation-wide strategy to incentivise staff mobility. The PUC indicated it was open to staff taking new positions across the regulator and advertised some new positions only internally. Moving forward, the progress review recommended to continue work on the implementation of the recommendation.

Assessment of progress

Staff mobility remains relatively low in absence of incentives, where the Economic Analyses and Legal Departments act as the main intermediaries for the exchange of knowledge and experiences.

Since the progress review in 2021, the PUC made relatively minor changes to its organisational structure¹³ and publishes all information about open vacancies on the internal portal but did not take steps to improve staff mobility. The organisation has no organisation-wide programme to incentivise staff mobility, which continues to take place on a case-by-case basis. As part of PUC's HR strategy for the period 2022-2026, it noted staff mobility as an avenue to develop the knowledge and experience of staff, but this appears to be focused mainly on changes within the same department. Over the period 2020-2022, three staff members switched departments within the organisation, equal to 3% of staff. In absence of a dedicated programme, staff members may not be sufficiently aware or encouraged to change to different departments as a way to develop professionally.

The Economic Analyses and Legal Departments continue to function as the main facilitators for the exchange of experience and practice across the organisation, given their cross-sectoral functions. In addition, to support exchange, the PUC organises monthly meetings to share information on ongoing activities and makes use of working groups for staff from different departments to share ideas (such as on the revisions to the methodology to calculate capital costs and the PUC data audit).

Moving forward on this recommendation, the PUC could develop a staff mobility programme, to highlight the benefits that mobility across departments could bring to staff members in terms of new experience, skills and career development. For the organisation as a whole, increased mobility could help to share knowledge and practices across departments, strengthen interlinkages and build a common organisational culture. It could also offer a more diverse work environment to staff members, and as such position the regulator as a more attractive employer for staff looking for opportunities to develop themselves. In implementing a mobility programme, the PUC could give presentations to staff members and include mobility as a topic when discussing the yearly development plans of staff members.

Recommendation: Introduce more regular and formal exchanges between Parliament and the PUC

The 2016 review recommended more regular and formal engagement with the Saeima to strengthen the PUC's accountability and performance. It noted that annual public hearings in the Economic Committee of Parliament could help to alert parliamentarians and other stakeholders to forthcoming developments and possible areas for attention. It also suggested the option of a periodic independent evaluation of the functioning of the PUC, for example through the Supreme Audit Office or another external body.

The 2021 progress review noted good progress on this recommendation. The PUC presented its Annual Action Plan every year, which included a discussion of the regulator's operational and strategic objectives. The regulator also submitted a copy of its annual report to the Saeima and has been invited to parliamentary committees to discuss sector-related issues. However, the time dedicated to discussion with parliament is limited, thereby reducing the scope for meaningful engagement. Moving forward, the progress review recommended to increase engagement, such as through more instances in which the PUC addresses the Saeima plenary or by expanding engagement with parliamentary committees.

Assessment of progress

The PUC frequently interacts with parliamentary committees but could advocate for wider “big picture” engagement and tailored communication, in a context where it faced criticism over recent tariff increases.

Most of the PUC’s engagement with the Saeima is channelled through parliamentary committees, where the PUC regularly presents its position or recommendations on legislative proposals or sectoral issues. In some cases, it is asked to participate as the main rapporteur on a topic, while in other cases the regulator attends meetings to respond to questions that may arise during discussions. The frequency depends on the legislative process and the issues at hand. For example, the regulator frequently engaged with parliamentary committees on the new Electronic Communications Law and amendments to the Electricity Market Law and the Waste Management Law. The PUC may also be asked to share any written submissions after meetings.

Beyond engagement on regulatory matters, there is some interaction with committees on the regulator’s performance and budget. The PUC submits its annual report in writing to the Saeima, after which it is discussed in the Economic, Agricultural, Environmental and Regional Policy Committee. Before the regulator submits its annual report, the PUC’s Chair also meets with the Speaker of the Saeima, to discuss the annual report and current events. The PUC put in effort to improve the accessibility of its annual report to support understanding of its work, using a shorter document with more visualisations and less technical language (see Recommendation: Use performance data and information to communicate with key stakeholders). The PUC’s budget is discussed in a meeting of the Saeima Budget and Finance Committee, based on a document produced by the regulator with cost and revenue projections and an overview of functions and performance indicators.

The regulator has no in-person interaction with the plenary on its performance, at a time when its work risks becoming more politicised due to recent tariff increases. The main interaction between the regulator and the Saeima plenary is through the annual written submission of its annual report, lacking an opportunity for meaningful dialogue. Recently, the regulator faced criticism from politicians and members of government regarding an increase in electricity tariffs in 2023 (Delfi, 2023^[59]) (TV NET, 2023^[12]) (LSM, 2023^[10]). This included criticism on the social implications of the tariff decision and suggestions for changes to the regulator’s board and organisation (see Box 1.1 under Institutional and sector context). In contrast, for the State Audit Office and the Ombudsman, the legislation requires a submission of the annual report in writing and a subsequent in-person reporting at a sitting of the Saeima, including an opportunity for debate (Saeima, 2019^[60]).

The PUC undergoes independent periodical evaluations of the organisation’s performance, attesting to a drive to excel and supporting the regulator’s accountability. The regulator is required by law to conduct an independent assessment of its activities, a requirement that is met through the current OECD progress review. Beyond legislative requirements, the regulator undergoes additional external assessments to assess where it stands, and to define improvements for the organisation. The PUC organises an annual survey, conducted by the external research centre SKDS, to evaluate the perceptions of consumers and operators on the regulator’s work. Since 2020, the regulator also participates in sustainability index by the Institute of Corporate Sustainability and Responsibility, looking at the organisation’s sustainability and corporate responsibility, and reports on its performance in the index through the regulator’s annual report (InSCR, 2023^[61]) (PUC, 2023^[62]).

Moving forward on this recommendation, the PUC should advocate for a legislative change that could increase the scope of its engagement with the Saeima, as part of broader efforts to improve awareness of and engagement with the regulator’s work (Box 1.5). This could potentially be done by amending the relevant legislation to include a requirement for an annual in-person reporting by the PUC at a sitting of the Saeima, similar to existing requirements for the State Audit Office and the Ombudsman. The reporting

could focus on the regulator's performance and strategy and the main sectoral challenges. Broader “big picture” engagement and clear communication tailored to specific audiences could support understanding of the regulator's work and improve the regulator's visibility beyond specific regulatory issues.

Box 1.5. Focus area: Stakeholder engagement in a changing context

The PUC requested additional focus of the review on its stakeholder engagement practices. This focus area is not directly linked to a recommendation from the 2016 review.

The PUC engages frequently with stakeholders to inform its decision making, which could be strengthened using hybrid public hearings and communication on broader impacts.

The PUC has a robust process in place to engage with stakeholders on the regulator's decisions, using both formal and informal engagement to support an open environment. In developing new regulation, the regulator usually starts its consultation by issuing a public consultation document. This document discusses the regulatory and legal framework, the justification for the regulatory proposal and an assessment of the impact on different groups (PUC, 2023^[63]). The impact assessment can contain both qualitative and quantitative discussions of impact, depending on the available information.

The regulator invites stakeholders to share their opinions on regulatory proposals through different channels, depending on the regulatory proposal at stake. For all regulatory proposals, stakeholders are invited to provide comments on the consultation document, where the length of the comment period may differ for different types of proposals. During the consultation period, the regulator can also hold a public hearing for stakeholders to express their opinions. The possibility of such a meeting is at the discretion of the regulator, and public hearings usually do not take place for tariff proposals that do not have a society-wide impact (PUC, 2023^[64]). After the consultation period, the PUC sometimes organises a meeting where it presents and responds to the comments received during the consultation. This is done in cases where proposals and comments received during the consultation either did not result in a change in the regulatory decision or where there is a need to discuss any proposals or comments received (PUC, 2023^[65]). Finally, specific regulatory issues may also be discussed during meetings of the Advisory Council.

The regulator complements formal engagement on specific regulatory decisions with informal engagement and engagement with stakeholders on its strategy. The development of the PUC strategy for the period 2022-226 was discussed in the regulator's Advisory Council four times, both before and after adoption of the strategy, and involved consultations with a wide range of industry and consumer stakeholders. Beyond formal engagement, the regulator interacts with many of its stakeholders on a daily basis, to collect data and technical information to feed into the regulator's decision making.

The regulator's stakeholder engagement changed in response to crises over the last three years, to ensure the continuity of processes and support the sectors. Following the start of the COVID-19 crisis, public hearings no longer take place in person. This practice of online meetings has continued until the time of the progress review at the end of 2023 and is envisaged to continue in the future (PUC, 2023^[64]). Meetings of the Advisory Council are organised in a hybrid format, where members of the Advisory Council can attend both in person at the PUC offices and remotely (PUC, 2023^[49]). The regulator's engagement also responded to the shocks to energy markets that were caused by Russia's war of aggression against Ukraine. To guide the sector through this period, the regulator provided guidance to users, operators and traders to explain rights and obligations, including through press releases and workshops.

The regulator's use of stakeholder engagement is robust and widely appreciated, where stakeholders highlight the openness of the regulator to discuss concerns and issues. However, the process of

engagement has been fundamentally changed by the COVID-19 crisis, even after restrictions have eased. This has brought benefits, where the possibility of remote participation is valued by stakeholders and can allow for easier participation of stakeholders from across the country. At the same time, the regulator may consider the use of public hearings in a hybrid format for decisions with a more significant societal impact, to provide stakeholders also with the possibility of in-person participation. The regulator could also consider approaches to expand engagement beyond the usual actors to “unusual suspects”, by reducing entry barriers for participants and addressing issues in an accessible and understandable way. This could improve the overall accessibility of the consultation process and ensure all stakeholders are represented in the regulatory process.

The PUC’s strong engagement can be used to flag any issues or impacts that go beyond the regulator’s mandate. There are several policy goals in utility sectors – including social and environmental – that the PUC is not directly responsible for. These may link closely with the regulator’s work, as was shown by recent debate around the social impacts of tariff increases. In such instances, regulators should be careful to stick to their mandate and objectives, to ensure role clarity. However, awareness of broader impacts remains important, as they could influence public perception and the overall effectiveness of public policy. Regulators could use proactive and tailored communication to highlight the consequences of their decisions. This could invite stakeholder input, raise awareness and feed into decision making by other actors such as ministries. As such, it could support a co-ordinated policy response, while respecting the regulator’s independence in the process.

Source: Conference Proceedings – 14th OECD Conference on Measuring Regulatory Performance, Strengthening democracy through more participatory, responsive and transparent rule-making.

Recommendation: Remuneration of Board members after the end of term

The 2016 review suggested that the lack of compensation for Board members at the PUC during their two-year cooling-off period, in which they cannot work in the sectors overseen by the PUC, could have a significant impact on recruitment of suitable candidates. The restriction could affect the diversity of background and deter qualified candidates, given the size of the country and the multi-sector nature of the regulator. In addition, for other staff, the review recommended to consider whether a control mechanism to prevent potential conflicts of interests may be needed.

The 2021 progress review noted no progress on this recommendation. At the time of the review, the State Chancellery had put forward a proposal to include a compensation mechanism for PUC Board members after their term. This amendment had not yet been discussed in the Saeima. To put arrangements in comparison, board members of the Latvian financial regulator received compensation for six months after the end of their term. Moving forward, the progress review recommended to continue work on the implementation of the recommendation.

Assessment of progress

Board members can now receive three months of remuneration during the two year “cooling-off” period, although this may not be sufficient to promote diversity in their backgrounds.

There has been some progress on the recommendation through the introduction of an allowance equal to three months of salary that is paid to Board members after the end of their term, as part of a broader reform for public entities (Saeima, 2023^[66]). This remuneration is rewarded to Board members that are not re-appointed and do not continue to work in the public sector, and also applies for a range of other positions across public bodies.¹⁴ The provision does not apply to board members of the Latvian Central Bank – which was merged with the financial regulator – who receive an allowance equal to six months of salary after the end of their term (Saeima, 2023^[67]) (Latvijas Bankas, 2021^[68]).

The cooling-off period is relatively long when compared with other regulators in the region, which may deter potential candidates in a context where remuneration during the cooling-off period is limited. A majority of regulators has cooling-off periods or other post-employment restrictions in place for their leadership, as a safeguard to protect the integrity of the regulator and prevent potential conflicts of interests (OECD, 2017^[57]) (OECD, 2021^[39]). The length of the cooling-off period for PUC Board members, during which they cannot become shareholders, stockholders, partners or hold an office in the companies under the regulator's supervision, has remained unchanged at two years. This is similar to what is seen across other regulatory institutions in Latvia, such as the State Railway Administration and the Civil Aviation Authority. However, in other Baltic states, cooling-off periods are usually limited to a period of one year for economic regulators.¹⁵

Staff at the PUC currently face no post-employment restrictions. Other regulators in the region often use a cooling-off period of one year after employment, during which staff members cannot take jobs in companies they directly supervised.¹⁶ Looking more widely across countries, an OECD study found that 48% of regulators had post-employment restrictions such as cooling-off periods in place for senior management (excluding agency head/board members) and 27% for lower levels of staff (OECD, 2022^[55]).

Moving forward on this recommendation, the PUC should assess – jointly with other public bodies – whether the current length of the cooling-off period is appropriate, also considering the level of remuneration offered. This assessment should analyse its implications on the diversity of its leadership and consider whether any post-employment restrictions for other staff levels may be needed. While the cooling-off periods can be an important conflict of interest provision, they should be reasonable and remunerated (OECD, 2017^[57]). The PUC could share the findings of this assessment with ministries, to inform the government's decision making on the necessity of any post-employment restrictions.

Output and outcome

The output and outcome dimension within the PAFER framework looks at the existence of a systematic assessment of the performance of the regulated entities, the impact of the regulator's decisions and activities, as well as the extent to which the measurements are used. The PUC has made strong progress on recommendations in this area since 2021, most notably through the introduction of key performance indicators and the use of interactive tools and reports to make the regulator's performance reporting more accessible. To strengthen progress in this area further and maximise accountability, the PUC could define targets and a methodology for the regulator's key performance indicators.

Recommendation: Develop a performance assessment matrix that links goals and priorities to outputs and outcomes

The 2016 OECD review recommended the PUC to develop a performance assessment matrix that links goals and priorities to outputs and outcomes and to improve the usage of indicators to measure performance. This matrix could serve as a tool to monitor the implementation of the PUC's strategy and the effectiveness with which the regulator works towards its objectives. The information could serve to regularly inform the Board on trends and progress.

The 2021 progress review noted no progress on this recommendation. The PUC did not develop a performance assessment matrix. The strategic part of the Annual Action Plan is subject to quarterly assessment of performance by the Board and operational objectives are discussed on a weekly basis. However, these progress assessments did not include any indicators to measure progress on objectives. Moving forward, the progress review recommended developing different sets of indicators for the different sectors that the PUC regulates to overcome the issue of measuring performance. The recommendation suggested to seek input from the newly established Advisory Council to identify the indicators stakeholders deem most important.

Assessment of progress

The PUC made strong progress by introducing KPIs after consultation with stakeholders, and now needs to define targets and a clear methodology to enable tracking and to maximise accountability.

The regulator developed a set of key performance indicators (KPIs) to measure progress on its strategy 2022-2026 (Table 1.5). These KPIs are directly linked to strategic objectives, focusing on competition, sector efficiency, service quality, tariffs structures and digitalisation, as well as the regulator's own efficiency and visibility. The regulator consulted the set of indicators with stakeholders, where it received feedback on its indicators through meetings of the Advisory Council and wider consultation.

Table 1.5. KPIs in the PUC's strategy for 2022-26

Indicator's name	Indicator's purpose
Market concentration (HHI)	Assess sectoral development trends (including impact of the regulatory environment on market concentration)
Trends for service quality indicators	Evaluate trends of service quality characteristics
Improving the tariff structure	Ensure a more accurate alignment of tariff structure with cost structure
Intensity of digitalisation of commercial services	Evaluate intensity of digitalisation in commercial services provided by regulated merchants
Efficiency of tools prepared by the regulator	Evaluate the trend of tool usability, allowing for optimised communication channels and tool functionality
Visibility of the regulator's functions and communication efficiency	Evaluate residents' understanding of the types of regulated services and the overall tendency of the regulator's communication efficiency, allowing for identified directions for development.

Source: (PUC, 2022^[37]).

While the strategy document identifies the indicators and their purpose, it does not define targets or a methodology to calculate indicators. The regulator has started collecting the base values for indicators in 2023, and based on this it will measure progress on an annual basis and set targets. The regulator's strategy document provides a description of the indicators that the regulator uses to track progress, and their purpose. However, it does not define further specifics on how exactly an indicator will be calculated, which is likely to differ across sectors.

The ability to define concrete targets for the KPIs may be more complicated where the regulator's influence on indicators is more limited. Several KPIs for the strategic period 2022-2026 are not only affected by the regulator's actions but are impacted by many actors and factors. For example, the level of market concentration is an important outcome for the regulator to consider in its work, and one it should aim to improve. However, the level of market concentration resulting in a sector depends not just on the PUC's work, but also strongly depends on wider government policy, industry decision making and the economic climate. This therefore affects the ability of the regulator to link progress on an indicator directly to its own performance.

Moving forward on this recommendation, the PUC should develop a more detailed definition, methodology and targets for its KPIs, in consultation with the Advisory Council. This could improve accountability and ensure stakeholders have the same expectation of what the regulator aims to improve. In defining targets and communicating on progress, it may be necessary to distinguish between outputs and outcomes that are more directly within the regulator's sphere of influence, and broader "watchtower" indicators on sector performance. For the latter, the regulator could consider defining intermediate outcome indicators that are more directly influenced by the regulator, such as compliance with regulatory decisions. Progress on these intermediate outcome indicators could then feed into the regulator's narrative and communication on the steps it takes to improve wider sector outcomes.

Recommendation: Use performance data and information to communicate with key stakeholders

The 2016 report recommended the PUC to enhance its use of data to improve communication with and transparency towards stakeholders. It suggested that the PUC focused on data that it already holds, as well as the development of key performance data through indicators.

The 2021 progress review noted moderate progress on this recommendation. While the regulator increased its external communication, it remained difficult to communicate on the regulator's performance in the absence of performance indicators. The regulator started an audit of the data it collects, which could help the regulator to find new potential uses for the data it holds and identify potential data gaps. Moving forward, the progress review recommended to make more use of structured and data-driven reporting. Analysis and data presented in plain language can be used to clearly communicate changes in sectors and impacts of decisions to all stakeholders.

Assessment of progress

The PUC uses interactive tools and reports to share insights on performance with stakeholders in an accessible format and is on track to report on KPIs in the future.

The PUC put additional effort into its use of performance data and information to communicate with its stakeholders, and stakeholders acknowledge the regulator's user-friendly way of reporting. Its annual report, published on the regulator's website and shared with the Saeima, contains many visualisations and uses simple language and a shorter format¹⁷ to report on trends in sectors. The PUC's implementation of a system of KPIs will support the regulator to communicate on its performance with stakeholders in the future (see Recommendation: Develop a performance assessment matrix that links goals and priorities to outputs and outcomes). Both developments allow the regulator to present its work in a more straightforward and non-technical manner, supporting wider understanding by stakeholders.

Beyond the regulator's annual report, the PUC is expanding its use of interactive and visual material and reports, such as interactive maps (e.g., on heating and water tariffs), infographics (using Infogram, Prezi and Power BI) and sectoral reports. These materials include reports on sector performance indicators and complaints received by the regulator, published on the regulator's website for each of the sectors under its supervision.¹⁸ The sector performance indicators published by the regulator allow for a benchmarking of providers in several sectors under the PUC's supervision.

The PUC is reassessing the way in which it collects and uses data in its activities. In 2022, the PUC finalised a second round of its data audit, which analysed the data submitted through the regulator's digital system to identify duplications of data and alternative data sources. The audit found there were no major duplications of data and alternative data sources were not sufficient to meet data requirements. The PUC also commenced a project to create a single "data library", where all data submitted via the regulator's digital data submission system should be stored. Excel remains the main analytical tool due to its familiarity, although staff increasingly use additional tools such as Power BI and Prezi. Following a request from postal service providers, the PUC adjusted its data collection and reporting for the postal sector, to include data on revenues, the number of postal items and the equipment for receiving postal items.

Moving forward on this recommendation, the PUC should use the KPIs – which it developed and is currently measuring – to improve overall reporting on the regulator's performance on its strategic objectives. In prioritising data collection and reporting activities, the PUC should identify the data needs of the regulator and other stakeholders and assess how addressing those data needs could support the regulator's strategic objectives. This could improve the effectiveness of the regulator's use of data and reduce unnecessary burdens on both the regulator and sectors.

Recommendation: Use data to develop choices for consumers

The 2016 review recommended to use the PUC's data and analysis to develop or facilitate the development of choice tools for consumers to guide their decisions. This is particularly important in certain sectors such as energy or e-communications, where consumers may wish to make decisions not only based on costs but also quality of service or other factors.

The 2021 progress review noted limited progress on this recommendation. At the time of the review, the availability of comparison tools for consumers in energy and e-communications remained limited. Moving forward, the progress review recommended to advocate for the implementation of legislation that allows the PUC to take more action in the sphere of comparison tools. In particular, the EU Directive 2019/944 could empower the PUC to supervise the development of comparison tools in the energy sector. The review noted a need for more data-driven tools and consumer education platforms which make use of extensive data.

Assessment of progress

In absence of any comparison tools for energy and e-communications, the regulator developed information campaigns to educate and guide consumers.

The PUC did not develop any new user comparison tools to empower consumers with information and reap the full benefits from competition. A comparison tool could support the regulator's mission to ensure the efficient provision of high-quality services at reasonable prices (PUC, 2022^[37]). In the absence of a comparison tool, consumers may not maximise their welfare by selecting the provider that most closely matches their preferences in terms of price, quality, sustainability and customer service. At the same time, providers may miss incentives to increase the competitiveness of their offer.

EU and national legislation envisage comparison tools for energy and e-communications. Only two comparison tools for electricity currently exist in Latvia, which are both developed by private parties and provide for simple comparisons of prices, but which have not been validated by the PUC (Energija24, 2024^[69]) (Elektroenerģija, 2024^[70]). The EU electricity directive and the proposed new gas directive both require member states to ensure access for small consumers to an independent comparison tool (European Union, 2019^[71]) (European Union, 2021^[72]). These tools, allowing consumers to compare offers in a clear format, should be overseen or developed by a competent authority. At the time of the review, the Saeima was discussing proposals that could assign to the PUC the function to monitor the provision of comparison tools, as well as task the electricity distribution system operator to develop a comparison tool. For e-communications, the PUC is already tasked to set quality requirements for comparison tools that compare tariffs and quality, or to develop a comparison tool if none are available (Saeima, 2022^[18]). However, the regulator is still in the process of developing such a tool, where it encounters technological challenges and relatively high costs.

The regulator developed information campaigns to educate consumers and help them make better decisions. Several of these campaigns make use of or refer to interactive data tools by the regulator to inform users of tariffs or quality of services, such as tariff maps with heat, water and waste disposal tariffs across regions in Latvia. These actions include guidance on choosing the right energy and e-communications contracts, rules on transparency for electricity and gas bills, energy efficiency tips, communication on tariff changes and state aid provision and tariff maps (PUC, 2020^[73]) (PUC, 2022^[74]) (PUC, 2020^[75]) (PUC, 2020^[76]) (PUC, 2020^[77]) (PUC, 2021^[78]) (PUC, 2022^[79]) (PUC, 2022^[80]) (PUC, 2022^[81]).

Moving forward on this recommendation, the PUC should continue its work on a comparison tool for e-communications services, using its international co-operation with other regulators (Box 1.6) to exchange experiences and good practices. The PUC could advocate for the transposition of EU directives into legislation, to empower the regulator in overseeing or developing energy comparison tools. Such tools

should ideally combine both electricity and gas, to meet expected future EU requirements for gas and guide consumers in the newly liberalised gas market. Furthermore, the PUC should continue its work to simplify and standardise billing, to make it easier for consumers to compare costs across providers.

Box 1.6. The PUC's international regulatory co-operation

The PUC actively participates in many international regulatory platforms, exchanging practices on all sectors under its supervision except for the deposit system for beverage containers. The regulator's international engagement focuses on activities to exchange and align practices among regulators, co-ordinate on the implementation of EU directives and to drive regional market integration or harmonisation.

Engagement takes place through global, European and regional fora, including:

- **Energy:** The European Union Agency for the Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators (CEER, Vice-President), the Energy Regulators Regional Association (ERRA, Presidium member), the Baltic Electricity Market Forum, the Baltic Gas Market Forum and the International Confederation of Energy Regulators (ICER).
- **E-communications and postal services:** The Independent Regulators Group (IRG), the Body of European Regulators for Electronic Communications (BEREC), the Baltic Electronic Communications & Postal Services Regulators' Meeting (BALTREG) and the European Regulators Group for Postal Services (ERGP).
- **Water and waste management:** the European Water Regulators (WAREG).
- **Cross-sectoral:** the OECD Network of Economic Regulators (NER).

Beyond international fora, the PUC engages in co-operation with other regulatory bodies by establishing bilateral, regional and multilateral agreements and organising workshops. Among other topics, the regulator entered several agreements in recent years towards the integration and harmonisation of regional electricity and gas markets.

Source: Information provided by the PUC; PUC (2023), International Cooperation, <https://sprk.gov.lv/en/content/international-cooperation>.

Lessons learnt and way forward

The PUC has been navigating big changes across sectors under its purview and will need to continue to display this agility moving forward. Changes in the regulatory context have impacted its work, and as such also its governance. In this dynamic context, a continuous focus on performance is needed to drive improvements and ensure enhanced delivery on the regulator's mandate. This can help to identify alternative approaches when recommendations do not lead to the right effect and highlight areas for future attention. The current progress review is one contribution to support such efforts, by monitoring the implementation of recommendations from the 2016 review.

The PUC has successfully continued its implementation of the 2016 recommendations, building on the significant progress already noted in the 2021 review. Important improvements since 2021 include the introduction of KPIs to measure progress on strategic objectives, a fully operational Advisory Council and the use of interactive data-driven tools and reports to communicate with stakeholders. The PUC is the first regulator to undergo a second progress review, attesting to a drive to build regulatory excellence.

Follow-up mechanism

In implementing the 2016 PAFER review, the PUC established a working group focused on internal governance and submitted proposals for legislative reform with the executive. Following the 2021 progress review, the PUC did not establish a dedicated working group, but shared the progress review's findings widely and incorporated actions to implement recommendations into existing processes.

Findings from the 2021 review were shared with a wide range of stakeholders and fed into the regulator's strategic planning progress. The regulator highlighted the work through the report launch at a 2021 conference marking PUC's 20th anniversary and by informing the regulator's Advisory Council of its findings. The regulator also shared insights with other national regulatory authorities (NRAs) through international platforms and provided the report as introduction material to new members of the regulator's senior management. Several recommendations were addressed in the regulator's preparations for the 2022-2026 strategic plan, such as the development of KPIs by the regulator.

Continuous process

The ongoing collaboration between the OECD and the PUC highlights how improving a regulator's governance should not be seen as a one-off exercise, but rather a continuous conversation. The requirement for the PUC to undergo an independent assessment, as defined in the regulator's establishing legislation, acknowledges this need. The instrument of a progress review can support this process by bringing an external perspective and monitor earlier recommendations, to assess where the regulator stands on its journey towards becoming a "world-class" regulator.

Recent shocks to the regulatory context, driven by COVID-19 and Russia's war of aggression against Ukraine, only increase the value of periodical assessment. Recommendations that may have been effective under previous contexts could need fine-tuning or refocusing when the world around us changes. For example, while the regulator had already implemented a "total rewards" approach to increase job attractiveness at the time of the first progress review, its approach may need adapting in response to a change in work environment caused by the COVID-19 crisis. Moreover, the implementation of recommendations may highlight unforeseen complexities, which could warrant the regulator to look for new approaches. The practical validity of recommendations is therefore not constant, and new contexts can bring new challenges for regulators that did not exist before.

By periodically assessing a regulator's governance, looking both within the regulator and at the wider institutional framework, the PUC will be able to stay relevant and effective even when roles and expectations may change. This periodical assessment can be done through a combination of progress reviews to track earlier recommendations and broader governance reviews or in-depth studies of specific governance areas. The choice of the appropriate instrument to improve performance will depend on i) the continued relevance of earlier recommendations, ii) the degree of change to the regulator's context and iii) any emerging new areas of focus regarding a regulator's governance.

Areas of focus moving forward

The second progress review of the PUC highlights several areas that the regulator could focus on moving forward, to build on earlier progress and drive performance. The main areas of focus going forward are:

- **Performance assessment:** to maximise accountability around the newly introduced key performance indicators, the PUC could define and communicate a clear methodology and targets for the indicators in consultation with the Advisory Council.
- **Funding:** to ensure long-run cost-reflectivity for the regulatory fee that funds the regulator, the PUC should advocate for clear criteria and procedures for a periodic revision of the fee level.

- **Communication:** to increase awareness and understanding of the regulator's role, the PUC could use tailored communication in its engagement with different stakeholder groups. As part of this effort, the PUC could advocate for an annual in-person reporting by the regulator to the Saeima plenary on its strategy and performance, in line with existing requirements for the State Audit Office and the Ombudsman.
- **Co-ordination and independence:** where the PUC identifies broader sectoral challenges that go beyond its mandate, the regulator could more proactively co-ordinate with other bodies to improve role clarity, signal its independence and support the overall effectiveness of public policy.

References

- ACER (2022), *Baltic Regional Gas Market Coordination Group*, [5]
https://documents.acer.europa.eu/en/Gas/Regional_%20Intiatives/Pages/Baltic-Regional-Gas-Market-Coordination-Group.aspx (accessed on 14 December 2023).
- Berthon, P., M. Ewing and L. Hah (2005), "Captivating company: dimensions of attractiveness in employer branding", *International Journal of Advertising*, Vol. 24/2, pp. 151-172, [82]
<https://doi.org/10.1080/02650487.2005.11072912>.
- Cabinet of Ministers (2023), *Regulations on waste management regions [Noteikumi par atkritumu apsaimniekošanas reģioniem]*, [35]
<https://likumi.lv/ta/id/342688-noteikumi-par-atkritumu-apsaimniekosanas-regioniem> (accessed on 19 February 2024).
- Cabinet of Ministers (2021), *Par Atkritumu apsaimniekošanas valsts plānu 2021.-2028. gadam [On the National Waste Management Plan 2021-2028]*, [33]
<https://likumi.lv/ta/id/320476-par-atkritumu-apsaimniekosanas-valsts-planu-20212028-gadam> (accessed on 19 December 2023).
- CVK (2023), *Saeima Elections*, [58]
https://www.cvk.lv/en/saeima-elections?utm_source=https%3A%2F%2Fwww.google.com%2F (accessed on 24 November 2023).
- Delfi (2023), *Premjers apdomājies: pārrunās iespējas mainīt elektrības tarifus [The Prime Minister has thought about it: he will discuss the possibilities of changing electricity tariffs]*, [59]
<https://www.delfi.lv/193/politics/55825328/premjers-apdomajies-parrunas-iespejas-mainit-elektribas-tarifus> (accessed on 14 December 2023).
- Elektroenerģija (2024), *2024 Comparison of electricity tariffs for households [2024 Elektroenerģijas tarifu salīdzinājums mājsaimecībām]*, [70]
<https://www.elektroenerģija.lv/> (accessed on 22 February 2024).
- Enerģija24 (2024), *About us [Par mums]*, [69]
<https://www.enerģija24.lv/par-mums> (accessed on 22 February 2024).

- European Union (2021), *COM/2021/803 final*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0803&qid=1640002501099> (accessed on 4 December 2023). [72]
- European Union (2019), *DIRECTIVE (EU) 2019/944 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019L0944> (accessed on 4 December 2023). [71]
- InSCR (2023), *Ilgospējas indekss [Sustainability index]*, <https://www.incsr.eu/novertejumi/ilgtspejas-indekss/> (accessed on 5 December 2023). [61]
- LA (2023), *Ivars Zariņš: “Sadales tīkla” tarifi ir ekonomiski taisnīgāki un objektīvāk atspoguļo sniegtā pakalpojuma izmaksas [Ivars Zariņš: “Distribution Network” tariffs are more economically fair and more objectively reflect the costs of the provided service]*, <https://www.la.lv/ivars-zarins-st-tarifi-ir-ekonomiski-taisnigaki-un-objektivak-atspogulo-sniegta-pakalpojuma-izmaksas> (accessed on 19 December 2023). [13]
- Latvijas Banka (2023), *Forecasts of Latvijas Banka*, <https://www.bank.lv/en/operational-areas/task-monetary-policy/forecasts> (accessed on 20 September 2023). [52]
- Latvijas Bankas (2021), *Merger of the Financial and Capital Market Commission and Latvijas Banka*, <https://annualreport.latvijasbanka.lv/en/2021/management-and-organisation-of-latvijas-banka/merger-of-the-financial-and-capital-market-commission-and-latvijas-banka> (accessed on 28 November 2023). [68]
- LMT (2024), *About LMT [Par LMT]*, <https://lmt.lmt.lv/par-lmt> (accessed on 19 February 2024). [4]
- LSM (2023), *Prezidents: Jaunie paaugstinātie elektrības sadales tarifi jāpārskata [President: The new increased electricity distribution tariffs should be reviewed]*, <https://www.lsm.lv/raksts/zinas/ekonomika/09.08.2023-prezidents-jaunie-paaugstinatie-elektribas-sadales-tarifi-japarskata.a519498/> (accessed on 29 November 2023). [10]
- LV Portals (2022), *1. jūlijā sākas valsts pārvaldes atlīdzības sistēmas reforma [On July 1, the reform of the remuneration system of the state administration begins]*, <https://lvportals.lv/skaidrojumi/342588-1-julija-sakas-valsts-parvaldes-atlidzibas-sistemas-reforma-2022> (accessed on 17 November 2023). [53]
- LV Portals (2022), *Gads pēc reģionālās reformas [A year after the regional reform]*, <https://lvportals.lv/norises/341858-gads-pec-regionalas-reformas-2022> (accessed on 19 December 2023). [30]
- LV Portals (2022), *Stājas spēkā jaunais Elektronisko sakaru likums [The new Law on Electronic Communications enters into force]*, <https://lvportals.lv/skaidrojumi/343333-stajas-speka-jaunais-elektronisko-sakaru-likums-2022> (accessed on 19 December 2023). [19]
- OECD (2022), *Equipping Agile and Autonomous Regulators, The Governance of Regulators*, OECD Publishing, Paris, <https://doi.org/10.1787/7dcb34c8-en>. [55]
- OECD (2021), *COVID-19 and Well-being: Life in the Pandemic*, OECD Publishing, Paris, <https://doi.org/10.1787/1e1ecb53-en>. [56]
- OECD (2021), *OECD Regulatory Policy Outlook 2021*, OECD Publishing, Paris, <https://doi.org/10.1787/38b0fdb1-en>. [39]

- OECD (2021), *Progress Review of Latvia's Public Utilities Commission: Driving Performance*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/6c2ee469-en>. [2]
- OECD (2021), *Public Employment and Management 2021: The Future of the Public Service*, OECD Publishing, Paris, <https://doi.org/10.1787/938f0d65-en>. [54]
- OECD (2017), *Creating a Culture of Independence: Practical Guidance against Undue Influence*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264274198-en>. [57]
- OECD (2016), *Driving Performance at Latvia's Public Utilities Commission*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264257962-en>. [1]
- OECD (2014), *The Governance of Regulators*, OECD Best Practice Principles for Regulatory Policy, OECD Publishing, Paris, <https://doi.org/10.1787/9789264209015-en>. [48]
- PUC (2023), *ANNUAL REPORT 2022*, https://www.sprk.gov.lv/sites/default/files/editor/SPRK_gada_parskats_22_EN.pdf (accessed on 5 December 2023). [62]
- PUC (2023), *Dabaszgāzes pārvades sistēmas pakalpojuma tarifu aprēķināšanas metodika [Methodology for calculating natural gas transmission system service tariffs]*, <https://likumi.lv/ta/id/343770-dabaszgazes-parvades-sistemas-pakalpojuma-tarifu-aprekinasanas-metodika> (accessed on 15 November 2023). [43]
- PUC (2023), *Konsultatīvā padome [Advisory Board]*, <https://www.sprk.gov.lv/konspadome> (accessed on 20 September 2023). [49]
- PUC (2023), *Konsultatīvās padomes nolikums [Bylaws of the Advisory Board]*, https://www.sprk.gov.lv/sites/default/files/editor/Konsutat%C4%ABv%C4%81s%20padomes%20nolikums_28052020_Konsolid%C4%93ts_16022023.pdf (accessed on 20 September 2023). [51]
- PUC (2023), *Methodology for calculating tariffs for water management services [Ūdenssaimniecības pakalpojumu tarifu aprēķināšanas metodika]*, <https://likumi.lv/ta/id/279283-udenssaimniecibas-pakalpojumu-tarifu-aprekinasanas-metodika> (accessed on 19 February 2024). [32]
- PUC (2023), *Normatīvie akti elektronisko sakaru nozarē [Normative acts in the field of electronic communications]*, <https://www.sprk.gov.lv/content/normativie-akti-elektronisko-sakaru-nozare> (accessed on 19 December 2023). [20]
- PUC (2023), *Par akciju sabiedrības “Sadales tīkls” elektroenerģijas sadales sistēmas pakalpojumu tarifiem [About joint stock companies “Distribution network” electricity distribution systems service tariffs]*, <https://likumi.lv/ta/id/342097> (accessed on 19 December 2023). [9]
- PUC (2023), *Public consultations [Publiskās konsultācijas]*, <https://www.sprk.gov.lv/content/publiskas-konsultacijas>. [63]
- PUC (2023), *Rokasgrāmata: Dabaszgāzes tirgus atvēršana [Handbook: Opening the Natural Gas Market]*, <https://www.sprk.gov.lv/events/rokasgramata-dabaszgazes-tirgus-atversana> (accessed on 14 December 2023). [7]

- PUC (2023), *SPRK apstiprina grozījumus elektroenerģijas sadales un pārvades tarifu aprēķināšanas metodikās* [PUK approves amendments to the methodologies for calculating electricity distribution and transmission tariffs], <https://www.sprk.gov.lv/events/sprk-apstiprina-grozijumus-elektroenerģijas-sadales-un-parvades-tarifu-aprekinasanas> (accessed on 14 December 2023). [14]
- PUC (2023), *Uzklausīšanas sanāksmes* [Hearing meetings], <https://www.sprk.gov.lv/content/uzklausisanas-sanaksmes>. [64]
- PUC (2023), *Viedokļu saskaņošanas sanāksmes* [Brainstorming meetings], <https://www.sprk.gov.lv/content/viedoklu-saskanosanas-sanaksmes>. [65]
- PUC (2022), *Dabasgāzes sadales sistēmas pakalpojuma tarifu aprēķināšanas metodika* [Methodology for calculating natural gas distribution system service tariffs], <https://likumi.lv/ta/id/335098-dabaszgazes-sadales-sistemas-pakalpojuma-tarifu-aprekinasanas-metodika> (accessed on 15 November 2023). [42]
- PUC (2022), *Elektroenerģijas pārvades sistēmas pakalpojumu tarifu aprēķināšanas metodika* [Methodology for calculating electricity transmission system service tariffs], <https://likumi.lv/ta/id/335096-elektroenerģijas-parvades-sistemas-pakalpojumu-tarifu-aprekinasanas-metodika> (accessed on 15 November 2023). [41]
- PUC (2022), *Elektroenerģijas sadales sistēmas pakalpojumu tarifu aprēķināšanas metodika* [Methodology for calculating electricity distribution system service tariffs], <https://likumi.lv/ta/id/337496-elektroenerģijas-sadales-sistemas-pakalpojumu-tarifu-aprekinasanas-metodika> (accessed on 15 November 2023). [40]
- PUC (2022), *Elektronisko sakaru pakalpojumu kvalitātes mērījumu metodika* [Quality measurement methodology of electronic communication services], <https://likumi.lv/ta/id/335979-elektronisko-sakaru-pakalpojumu-kvalitates-merijumu-metodika> (accessed on 19 December 2023). [26]
- PUC (2022), *Ierobežotas radiofrekvenču joslas lietošanas tiesību noteikumi* [Limited radio frequency band usage rights provisions], <https://likumi.lv/ta/id/334642-ierobezotas-radiofrekvencu-joslas-lietosanas-tiesibu-noteikumi> (accessed on 19 December 2023). [21]
- PUC (2022), *Kā izvēlēties saviem patēriņa paradumiem atbilstošāko elektroenerģijas tirdzniecības piedāvājumu* [How to choose the best electricity trading offer for your consumption habits], <https://www.sprk.gov.lv/events/ka-izveleties-saviem-paterina-paradumiem-atbilstosako-elektroenerģijas-tirdzniecibas> (accessed on 22 September 2023). [74]
- PUC (2022), *Kapitāla izmaksu uzskaites un aprēķināšanas metodika* [Capital cost accounting and calculation methodology], <https://likumi.lv/ta/id/335113-kapitāla-izmaksu-uzskaites-un-aprekinasanas-metodika> (accessed on 20 September 2023). [44]
- PUC (2022), *KONSULTĀCIJU DOKUMENTS par elektroenerģijas sadales sistēmas pakalpojumu tarifu aprēķināšanas metodiku* [CONSULTATION DOCUMENT on the methodology for calculating electricity distribution system service tariffs], https://www.sprk.gov.lv/sites/default/files/editor/KD_elektroener%C4%A3ijas_sadales_tarifu_apr%C4%93%C4%B7in%C4%81%C5%A1anas_metodika.pdf (accessed on 20 September 2023). [45]

- PUC (2022), *Methodology for the Calculation of Thermal Energy Supply Service Tariffs* [Siltumenerģijas apgādes pakalpojumu tarifu aprēķināšanas metodika], <https://likumi.lv/ta/id/208283-siltumenerģijas-apgades-pakalpojumu-tarifu-aprekinasanas-metodika> (accessed on 20 September 2023). [46]
- PUC (2022), *Nacionālais numerācijas plāns* [National numbering plan], <https://likumi.lv/ta/id/335981-nacionalais-numeracijas-plans> (accessed on 19 December 2023). [24]
- PUC (2022), *Noteikumi ierobežotas radiofrekvenču joslas lietošanas tiesību piešķiršanai izsoles kārtībā* [Rules for awarding the right to use a limited radio frequency band by auction], <https://likumi.lv/ta/id/334643-noteikumi-ierobežotas-radiofrekvencu-joslas-lietosanas-tiesibu-pieskirsanai-izsoles-kartiba> (accessed on 19 December 2023). [22]
- PUC (2022), *Numerācijas krāpniecības novēršanas noteikumi* [Numbering fraud prevention rules], <https://likumi.lv/ta/id/335934-numeracijas-krapniecibas-noversanas-noteikumi> (accessed on 19 December 2023). [25]
- PUC (2022), *Par universālā pakalpojuma saistību atcelšanu elektronisko sakaru nozarē* [On the cancellation of universal service obligations in the electronic communications sector], https://www.sprk.gov.lv/sites/default/files/cmaa_files/LemumsN133D25082022.pdf (accessed on 19 December 2023). [27]
- PUC (2022), *Postponement of FinEstLat and Lithuanian gas market merge*, <https://www.sprk.gov.lv/en/events/postponement-finestlat-and-lithuanian-gas-market-merge> (accessed on 14 December 2023). [6]
- PUC (2022), *Public Utilities Commission Strategy 2022-2026*, https://www.sprk.gov.lv/sites/default/files/editor/SPRK_strategy_2022-2026.pdf (accessed on 20 September 2023). [37]
- PUC (2022), *SILTUMENERĢIJAS TARIFI 2022. gada apkures sezonas* [HEAT ENERGY TARIFFS for the 2022 heating season], <https://infogram.com/sprk-siltumenerģijas-apskats-sezonas-beigas-1hxr4zxlme5wo6y?live> (accessed on 22 September 2023). [80]
- PUC (2022), *SPRK atgādina: elektroenerģijas un dabasgāzes skaitītāju rādījumi jānodod savlaicīgi* [PUC reminds: readings of electricity and natural gas meters must be submitted on time], <https://www.sprk.gov.lv/events/sprk-atgadina-elektroenerģijas-un-dabaszgazes-skaititaju-radijumi-janodod-savlaicigi> (accessed on 22 September 2023). [81]
- PUC (2022), *SPRK: Siltumenerģijas tarifi šajā apkures sezonā dažādās Latvijas apdzīvotās teritorijās būtiski atšķirsies* [PUC: Heat tariffs in this heating season will be significantly different in different inhabited areas of Latvia], <https://www.sprk.gov.lv/events/sprk-siltumenerģijas-tarifi-saja-apkures-sezona-dazadas-latvijas-apdzivotas-teritorijas> (accessed on 22 September 2023). [79]
- PUC (2021), *Padomi efektīvākai siltumenerģijas izmantošanai; Kā rīkoties?* [Tips for more efficient use of thermal energy; What to do?], <https://www.sprk.gov.lv/events/padomi-efektivakai-siltumenerģijas-izmantosanai-ka-rikoties> (accessed on 22 September 2023). [78]
- PUC (2020), *Kāds biržas cenas līgums mājāsaimniecībām ir izdevīgāks?* [Which exchange rate contract is more beneficial for households?], <https://www.sprk.gov.lv/events/kads-birzas-cenas-ligums-majsaimniecibam-ir-izdevigaks> (accessed on 22 September 2023). [76]

- PUC (2020), *Pēc kādiem kritērijiem vērtēt mobilo operatoru sniegto pakalpojuma kvalitāti?* [What criteria should be used to assess the quality of service provided by mobile operators?], <https://www.sprk.gov.lv/events/pec-kadiem-kriterijiem-vertet-mobilo-operatoru-sniegto-pakalpojuma-kvalitati> (accessed on 22 September 2023). [75]
- PUC (2020), *Trīs praktiski soļi: Kā samazināt izmaksas par elektroenerģiju?* [Three practical steps: How to reduce electricity costs?], <https://www.sprk.gov.lv/events/tris-praktiski-soli-ka-samazinat-izmaksas-par-elektroenerģiju> (accessed on 22 September 2023). [73]
- PUC (2020), *Turpmāk elektroenerģijas un dabasgāzes rēķinos lietotājiem būs pieejama jauna informācija* [From now on, new information will be available to users in electricity and natural gas bills], <https://www.sprk.gov.lv/events/turpmak-elektroenerģijas-un-dabaszgazes-reķinos-lietotajiem-bus-pieejama-jauna-informacija> (accessed on 22 September 2023). [77]
- PUC (2018), *The Public Utilities Commission's Operational Strategy 2018-2021*, <https://www.sprk.gov.lv/sites/default/files/editor/Baiba%20J/Latvia%20PUC%20Operational%20Strategy%202018-2021.pdf> (accessed on 20 September 2023). [38]
- Rīgas Siltums (2024), *Rīgas Siltums*, <https://www.rs.lv/saturs/rigas-siltums> (accessed on 19 February 2024). [3]
- Riigikogu (2023), *Civil Service Act*, https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/94835/111444/F1464072479/EST94835_eng-1.pdf (accessed on 28 November 2023). [85]
- Saeima (2023), *Atkritumu apsaimniekošanas likums* [Waste management law], <https://likumi.lv/ta/id/221378-atkritumu-apsaimniekosanas-likums> (accessed on 19 December 2023). [34]
- Saeima (2023), *Budget and Finance (Tax) Commission (14th Saeima)*, <https://titania.saeima.lv/livs/saeimasnotikumi.nsf/0/4D5F6D78B3C00B34C2258A5B00355321?OpenDocument> (accessed on 19 December 2023). [11]
- Saeima (2023), *Grozījumi Elektroenerģijas tirgus likumā* [Amendments to the Electricity Market Law], <https://www.vestnesis.lv/op/2023/231.1> (accessed on 20 December 2023). [16]
- Saeima (2023), *Grozījumi Enerģētikas likumā* [Amendments to the Energy Law], <https://www.vestnesis.lv/op/2023/231.2> (accessed on 20 December 2023). [17]
- Saeima (2023), *Grozījums likumā "Par sabiedrisko pakalpojumu regulatoriem"* [Amendment to the law "On Public Service Regulators"], <https://www.vestnesis.lv/op/2023/231.6> (accessed on 20 December 2023). [15]
- Saeima (2023), *Latvijas Bankas likums*, <https://likumi.lv/ta/id/326575-latvijas-bankas-likums> (accessed on 28 November 2023). [67]
- Saeima (2023), *Pasta likums* [Postal law], <https://likumi.lv/ta/id/193574-pasta-likums> (accessed on 19 December 2023). [29]
- Saeima (2023), *Valsts un pašvaldību institūciju amatpersonu un darbinieku atlīdzības likums* [The Law on Compensation of Officials and Employees of State and Local Government Institutions], <https://likumi.lv/ta/id/202273-valsts-un-pasvaldibu-instituciju-amatpersonu-un-darbinieku-atlidzibas-likums> (accessed on 21 September 2023). [66]

- Saeima (2022), *Administratīvo teritoriju un apdzīvoto vietu likums* [Law on Administrative Territories and Settlements], <https://likumi.lv/ta/id/315654-administrativo-teritoriju-un-apdzivoto-vietu-likums> (accessed on 19 December 2023). [31]
- Saeima (2022), *Elektronisko sakaru likums* [Electronic Communications Act], <https://likumi.lv/ta/id/334345-elektronisko-sakaru-likums> (accessed on 4 December 2023). [18]
- Saeima (2022), *Energoresursu cenu ārkārtēja pieauguma samazinājuma pasākumu likums* [Law on measures to reduce the extraordinary increase in energy resource prices], <https://likumi.lv/ta/id/329532-energoresursu-cenu-arkarteja-pieauguma-samazinajuma-pasakumu-likums> (accessed on 19 December 2023). [8]
- Saeima (2021), *Grozījumi Pasta likumā* [Amendments Postal law], <https://likumi.lv/ta/id/322959-grozijumi-pasta-likuma> (accessed on 19 December 2023). [28]
- Saeima (2021), *Lepakojuuma likums* [Packaging law], <https://likumi.lv/ta/id/57207-iepakojuma-likums> (accessed on 19 December 2023). [36]
- Saeima (2020), *Grozījumi likumā “Par sabiedrisko pakalpojumu regulatoriem”* [Amendments to the Law “On Regulators of Public Utilities”], <https://likumi.lv/ta/id/312814-grozijumi-likuma-par-sabiedrisko-pakalpojumu-regulatoriem> (accessed on 30 November 2020). [50]
- Saeima (2020), *Par sabiedrisko pakalpojumu regulatoriem* [About public service regulators], <https://likumi.lv/doc.php?id=12483> (accessed on 20 September 2023). [83]
- Saeima (2019), *Rules of Order of Saeima*, <https://likumi.lv/ta/en/en/id/57517> (accessed on 22 February 2024). [60]
- Seimas (2020), *Lietuvos Respublikos Viešųjų ir privačių interesų derinimo įstatymas* [The Republic of Lithuania on the Reconciliation of public and private interests law], <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.41669/asr> (accessed on 28 November 2023). [84]
- State Chancellery (2023), *Tiesību aktu projektu publiskais portāls* [Public portal of draft legislation], <https://tapportals.mk.gov.lv/> (accessed on 20 September 2023). [47]
- TV NET (2023), *Reirs kritizē elektrības sadales tarifa regulatora darbu* [Reirs criticizes the work of the electricity distribution tariff regulator], <https://www.tvnet.lv/7892699/reirs-kritize-elektribas-sadales-tarifa-regulatora-darbu> (accessed on 14 December 2023). [12]
- VAS Elektroniskie sakari (n.d.), *Kas mēs esam?* [Who are we?], <https://www.vases.lv/lv/content/kas-mes-esam-0> (accessed on 19 December 2023). [23]

Notes

¹ The net costs constitute the difference between the expenses and revenues for the provision of universal services as incurred by the universal service provider.

² The PUC mission evolved from “to independently and reliably ensure the balancing of the interests of service users and providers by promoting the development of public services” in the 2018-2021 strategy to “ensure high-quality public services at economically reasonable prices, promoting efficient provision of services and competition in the regulated sectors”. Its vision evolved from “one of the most reliable and open public authorities” in the 2018-2021 strategy to “every resident and merchant is entitled to public services that contribute to their welfare, and service providers evolve in an efficient, sustainable and reliable market.

³ The new methodology calculates capital costs based on historical investment values and a nominal cost of capital. Only in sectors with recent revaluations (electricity, gas and postal services) is a real cost of capital applied.

⁴ The Single Portal for the Development and Harmonisation of Draft Legal Acts tracks the development and consultation on legislative proposals.

⁵ The Law on Public Service Regulators defined the following participants of the Advisory Council: the Ministry of Economy, the Ministry of Finance, the Ministry of Transport, the Ministry of Environmental Protection and Regional Development, the Competition Council and the Consumer Rights Protection Centre (Saeima, 2020^[83]). The by-laws of the Advisory Council included a set of additional participants: the Latvian Chambers of Commerce and Industry, the Latvian Confederation of Employers, the Associations of Local Governments of Latvia and the Associations for the Protection of Consumer Interests of Latvia. The Ministry of Climate and Energy was added in 2023, following the creation of this new ministry (PUC, 2023^[51]).

⁶ As of 1 October 2023, the total savings in the account amounted to 73% of the total allowed level of savings in the account.

⁷ The annual budget proposal for the next year includes costs estimates for the next three years, but only the values for the next year are put forward for approval by the Saeima Budget and Finance Committee.

⁸ A gradual reform of the state remuneration system was started in 2022, where salaries are expected to grow to 80% of salaries in the private sector for comparable positions. For certain positions in IT, which are in high demand, the new system allows for a more immediate adjustment to track market salaries (LV Portals, 2022^[53]).

⁹ In 2022, employees on average received 16.5 hours of training over the course of the year.

¹⁰ On 11 August 2011, a legislative change was enacted to move the PUC outside the supervision by the Ministry of Economics, thereby establishing the regulator’s independence.

¹¹ The 2022 OECD publication *Equipping Agile and Autonomous Regulators* found that on average across economic regulators, the maximum share of staff working remotely at any point in time was 92% (OECD, 2022^[55]).

¹² The OECD Publication *Public Employment and Management 2021: The Future of the Public Service* discusses strategies for recruitment and employer branding that can help public services to recruit the talent they require (OECD, 2021^[54]). Berthon et al. (2005) propose five factors for assessing overall employer attractiveness, looking at interest, social, economic, development and application values (Berthon, Ewing and Hah, 2005^[82]).

¹³ In 2022 and 2023, the PUC reduced the number of divisions within the Electronic Communications and Post Department from seven to four and repositioned the IT department to become a division within the Administrative Department.

¹⁴ Among other positions, this includes positions such as judges, the Prosecutor General, the leadership of the State Audit Office, the Anti-Corruption Bureau and any official appointed or approved by the Council of Ministers or a minister.

¹⁵ A cooling off period of one year applies to the Lithuanian Communications Regulatory Authority and National Energy Regulatory Council and the Estonian Competition Authority (Seimas, 2020^[84]) (Riigikogu, 2023^[85]).

¹⁶ The Lithuanian Communications Regulatory Authority and National Energy Regulatory Council and the Estonian Competition Authority all have cooling-off periods for staff for a period of one year after leaving the organisation, during which staff members are not allowed to take up employment in regulated entities which they directly supervised (OECD, 2022^[55]).

¹⁷ Where the annual report of the regulator used to have a length of 100 pages or more at the time of earlier reviews, the annual reports for the two most recent years (2021 and 2022) average around 60 pages.

¹⁸ Performance indicators on the new deposit system for beverage containers are not yet available, as this system become operational in 2022.

Annex A. At a glance: Progress on 2016 Recommendations

Recommendations 2016	Assessment of progress 2020	Status 2020	Assessment of progress 2023	Status 2023
Role and objectives				
Focus on high-level goals and outcomes	The PUC now has a stronger focus on goals and outcomes, which it could strengthen by measuring progress on its strategic objectives against key performance indicators.	Moderate progress	The PUC's new strategy maintains a focus on high-level goals and outcomes and introduces KPIs to track progress, which the regulator can strengthen by defining targets.	Good progress
Clarify goals and priorities	The PUC developed strategic directions that meet the interests of users, but could explain further how it balances the different interests and priorities it sets for itself.	Good progress	The PUC's new strategy continues the shift towards a user-centric approach, but it remains unclear how the regulator decides and communicates on trade-offs in decision making.	Good progress
Ensure that regulatory functions are fit for purpose	The PUC is better equipped for its designated functions; it now faces the task of fine-tuning the efficiency incentives in order to increase the impact of the new regulatory approach.	Good progress	Fine-tuning the use of incentive regulation in the energy sector has not significantly progressed due to a turbulent sector context, while incentive regulation has not been introduced in other sectors.	Good progress
Assess how to participate in the policy-making process	The PUC provides valuable input to ministries during the policy development process and the drafting of related legislation, whilst maintaining adequate resources to execute its functions. However, it did not assess how to continue participating in this process without losing sight of its independent role.	Limited progress	While the PUC's contributions to the policy-making process still consume significant resources, the regulator took an important step to signal its independent role by publicly issuing its opinions.	Moderate progress
Set up appropriate mechanisms to oversee implementation strategic framework	The PUC established the Advisory Council in 2020. Going forward, the PUC will need to manage expectations around the work and function of the Council.	Moderate progress	The PUC's Advisory Council is fully operational and positively perceived by stakeholders; it can be strengthened by keeping an eye on balanced representation and making meetings more member-led.	Good progress
Input				
Advocate for alternative fee setting process	The new fee setting process is more robust and reduced the executive's influence over the fee, but there is a need for clear criteria and procedures to ensure the right fee level in the future.	Moderate progress	The PUC successfully advocated for an alternative fee-setting process in 2017, but there remains a need for clear criteria and procedures for reviewing the fee level to ensure cost-reflectivity in a context of volatile	Moderate progress

Recommendations 2016	Assessment of progress 2020	Status 2020	Assessment of progress 2023	Status 2023
Investigate impacts of the salary cap	The competitiveness of PUC salaries has improved following a legislative reform in 2018 that changed the salary cap, but the impact of the salary cap on the PUC's ability to attract and retain talent for senior positions remains unclear.	Good progress	sector revenues. A new salary cap allows PUC salaries to track sector salaries, but the regulator now needs to assess and enhance its broader attractiveness as an employer beyond financial remuneration.	Good progress
Develop a "total rewards" approach to retain staff	The PUC implemented a new bonus system since 2016, with financial and non-financial incentives.	Fully implemented	The regulator continues to offer a balanced employment package, although its efforts to build a positive work environment could be affected by the structural impact from the COVID-19 pandemic on operations.	Fully implemented
Process				
Advocate for staggered board terms	There is a new robust process for the selection of Board members, that further staggers Commissioners' terms, and allows for maximum two Commissioners to have their terms confirmed or renewed in one calendar year.	Fully implemented	The system of staggered Board terms has been fully implemented, supporting institutional memory and regulatory stability, and providing safeguards for the regulator's independence.	Fully implemented
Exploit the multi-sector model and facilitate mobility across departments	Staff mobility within the PUC is shown to take place on a case-by-case basis, but the regulator lacks an organisation-wide mobility strategy.	Moderate progress	Staff mobility remains relatively low in absence of incentives, where the Economic Analyses and Legal Departments act as the main intermediaries for the exchange of knowledge and experiences.	Moderate progress
Introduce more regular and formal exchanges between Parliament and the PUC	The PUC presents its Annual Action Plan and the Annual Report to the Saeima. However, the current level of engagement is limited, given the breadth of topics and length of the reports.	Good progress	The PUC frequently interacts with parliamentary committees but could advocate for wider "big picture" engagement and tailored communication, in a context where it faced criticism over recent tariff increases.	Moderate progress
Remuneration of Board members after the end of term	There has been timid advancement on the process of amending the remuneration of Board members during the two-year cooling-off period.	No progress	Board members can now receive three months of remuneration during the two year "cooling-off" period, although this may not be sufficient to promote diversity in their backgrounds.	Limited progress
Focus area: stakeholder engagement			The PUC engages frequently with stakeholders to inform its decision making, which could be strengthened using hybrid public hearings and communication on broader impacts.	
Output and outcome				
Develop a performance assessment matrix that links goals and priorities to outputs and outcomes	The PUC had not developed a performance assessment matrix that would allow for a specific mapping of goals and priorities against outputs and outcomes.	No progress	The PUC made strong progress by introducing KPIs after consultation with stakeholders, and now needs to define targets and a clear methodology to enable tracking and to maximise accountability.	Moderate progress

Recommendations 2016	Assessment of progress 2020	Status 2020	Assessment of progress 2023	Status 2023
Use performance data and information to communicate with key stakeholders	The PUC enhanced transparency through more external communication. However, it is difficult for stakeholders to grasp how the PUC performs in the absence of key indicators.	Moderate progress	The PUC uses interactive tools and reports to share insights on performance with stakeholders in an accessible format and is on track to report on KPIs in the future.	Good progress
Use data to develop choices for consumers	Since the last review, there are limited information comparison tools for e-communications and energy. There is a need for more data-driven tools and consumer education platforms which make use of extensive data.	Limited progress	In absence of any comparison tools for energy and e-communications, the regulator developed information campaigns to educate and guide consumers.	Moderate progress

Annex B. Methodology

Measuring regulatory performance is challenging, starting with defining what to measure, dealing with confounding factors, attributing outcomes to interventions and coping with the lack of data and information. This annex describes the methodology developed by the OECD to help regulators address these challenges through a Performance Assessment Framework for Economic Regulators (PAFER), as well as how it was adapted for a progress review. It first presents some of the work conducted by the OECD on measuring regulatory performance. It then describes the key features of the PAFER and presents a typology of performance indicators to measure input, process, output and outcome. It finally provides an overview of the approach and practical steps undertaken for developing the present progress review.

This Annex summarises the methodology developed by the OECD to assess regulatory authorities' governance arrangements, drivers of performance as well as their performance measurement matrices. The methodology was prepared based on the experience of regulators participating in the OECD Network of Economic Regulators. The framework was applied to 14 regulatory bodies, and the present report is the third application of a progress review. The reviews up to date, spanning a number of sectors and countries, include: Colombia's Communications Regulation Commission (OECD, 2015^[1]), Latvia's Public Utilities Commission (OECD, 2016^[2]) (OECD, 2021^[3]), Mexico's three energy regulators (OECD, 2017^[4]) (OECD, 2017^[5]) (OECD, 2017^[6]) (OECD, 2017^[7]), Ireland's Commission for Regulation of Utilities (OECD, 2018^[8]), Peru's Energy and Mining Regulator (OECD, 2019^[9]), Peru's Telecommunications Regulator (OECD, 2019^[10]) (OECD, 2023^[11]), Peru's Transport Infrastructure Regulator (OECD, 2020^[12]), Ireland's Environmental Protection Agency (OECD, 2020^[13]), Portugal's Energy Services Regulatory Authority (OECD, 2021^[14]), Peru's Water and Sanitation Services Regulator (OECD, 2022^[15]), and Brazil's National Agency for Water and Basic Sanitation (OECD, 2024^[16]). The methodology has been adapted since its first application to learnings throughout the review process and is adjusted to take into account specific needs and contextual characteristics of each regulator, sector and jurisdiction.

Analytical framework

The analytical framework that informs this review draws on the work conducted by the OECD on measuring regulatory performance and the governance of economic regulators. OECD countries and regulators have recognised the need for measuring regulatory performance. Information on regulatory performance is necessary to better target scarce resources and to improve the overall performance of regulatory policies and regulators. However, measuring regulatory performance can prove challenging. Some of these challenges include:

- *What to measure*: evaluation systems require an assessment of how inputs have influenced outputs and outcomes. In the case of regulatory policy, the inputs can focus on: i) overall programmes intended to promote a systemic improvement of regulatory quality; ii) the application of specific practices intended to improve regulation, or, iii) changes in the design of specific regulations.
- *Confounding factors*: there is a myriad of contingent issues that have an impact on the outcomes in society which regulation is intended to affect. These issues can be as simple as a change in the weather, or as complicated as the last financial crisis. Accordingly, it is difficult to establish a direct causal relationship between the adoption of better regulation practices and specific improvements to the welfare outcomes that are sought in the economy.
- *Lack of data and information*: countries tend to lack data and methodologies to identify whether regulatory practices are being undertaken correctly and what impact these practices may be having on the real economy.

The OECD (2014^[17]) *Framework for Regulatory Policy Evaluation* starts addressing these challenges through an input-process-output-outcome logic, which breaks down the regulatory process into a sequence of discrete steps. The input-process-output-outcome logic is flexible and can be applied both to evaluate practices to improve regulatory policy in general, and also to evaluate regulatory policy in specific sectors, based on the identification of relevant strategic objectives. It can be tailored to economic regulators by taking into consideration the conditions that support the performance of economic regulators (Box A B.1).

The OECD Best Practice Principles for Regulatory Policy: The Governance of Regulators (OECD, 2014^[18]) identifies some of the conditions that support the performance of economic regulators. They recognise the importance of assessing how a regulator is directed, controlled, resourced and held to account, in order to improve the overall effectiveness of regulators and promote growth and investment, including by supporting competition. Moreover, they acknowledge the positive impact of the regulator's own internal

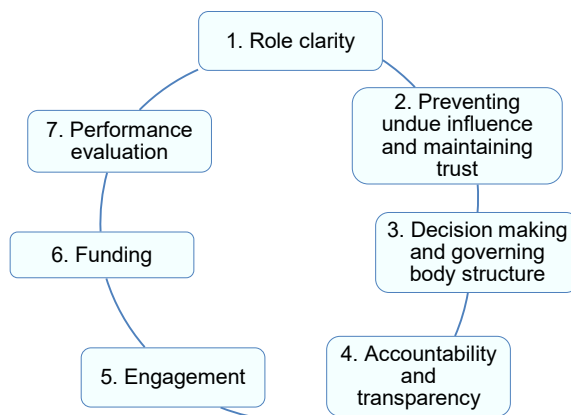
process on outcomes (i.e. how the regulator manages resources and what processes the regulator puts in place to regulate a given sector or market) (Figure A B.1).

Box A B.1. The input-process-output-outcome logic sequence

- Step I. Input: indicators include for example the budget and staff of the regulatory oversight body.
- Step II. Process: indicators assess whether formal requirements for good regulatory practices are in place. This includes requirements for objective setting, consultation, evidence-based analysis, administrative simplification, risk assessments and aligning regulatory changes internationally.
- Step III. Output: indicators provide information on whether the good regulatory practices have actually been implemented.
- Step IV. Impact of design on outcome (also referred to as intermediate outcome): indicators assess whether good regulatory practices contributed to an improvement in the quality of regulations. It therefore attempts to make a causal link between the design of regulatory policy and outcomes.
- Step V. Strategic outcomes: indicators assess whether the desired outcomes of regulatory policy have been achieved, both in terms of regulatory quality and in terms of regulatory outcomes.

Source: (OECD, 2014[17]).

Figure A B.1. The OECD Best Practice Principles on the Governance of Regulators



Source: Adapted from (OECD, 2014[18]).

The two frameworks are brought together into a Performance Assessment Framework for Economic Regulators that structures the drivers of performance along the input-process-output-outcome framework (Table A B.1).

Table A B.1. Criteria for assessing regulators' own performance framework

References	Strategic objectives	Input	Process	Output and outcome
Best Practice Principles for the Governance of Regulators	• Role clarity	• Funding	• Maintaining trust and preventing undue influence	• Performance evaluation
			• Decision making and governing body structure	
			• Accountability and transparency	
			• Engagement	
Institutional, organisational and monitoring drivers	• Objectives and targets	• Budgeting and financial management	• Strategy, leadership and co-ordination	• Performance standards and indicators
	• Functions and powers	• Human resources management	• Institutional structure	• Performance processes and reports
			• Management systems and operating processes	• Feedback or outside evidence on performance
			• Relations and interfaces with Government bodies, regulated entities and other key stakeholders	
			• Regulatory management tools	

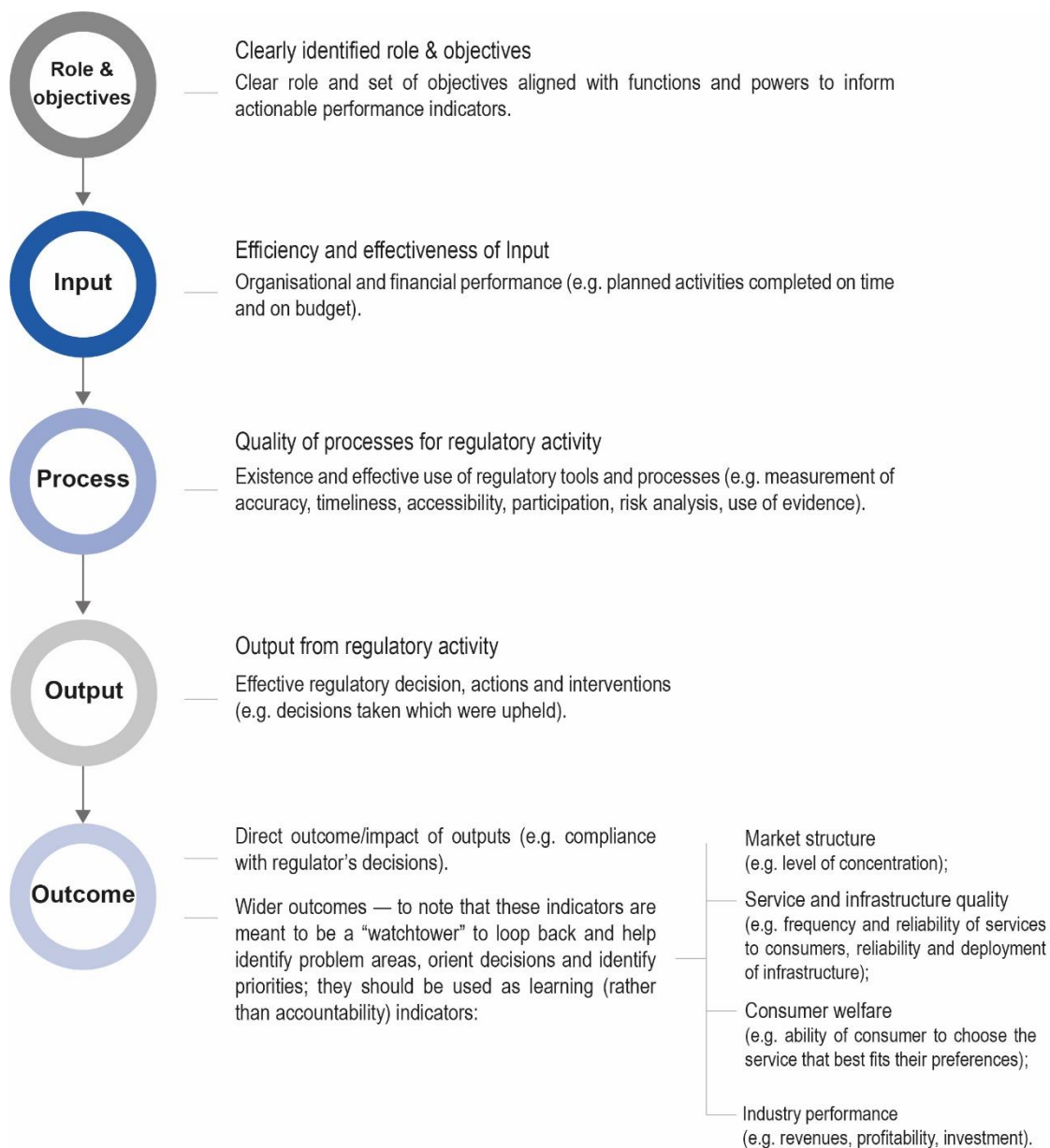
Source: OECD Analysis.

Performance indicators

For regulators, performance indicators need to fit the purpose of performance assessment, which is a systematic, analytical evaluation of the regulator's activities, with the purpose of seeking reliability and usability of the regulator's activities. Performance assessment is neither an audit, which judges how employees and managers complete their mission, nor a control, which puts emphasis on compliance with standards (OECD, 2004^[19]).

Accordingly, performance indicators need to assess the efficient and effective use of a regulator's inputs, the quality of regulatory processes, and identify outputs and some direct outcomes that can be attributed to the regulator's interventions. Wider outcomes should serve as a "watchtower", which provides the information the regulator can use to identify problem areas, orient decisions and identify priorities (Figure A B.2).

Figure A B.2. Input-process-output-outcome framework for performance indicators



Note: This framework was proposed in the initial methodology for the performance assessment framework for economic regulators (PAFER) discussed with the OECD Network of Economic Regulators (NER). It has been refined to reflect feedback from NER members and the experience of other regulators in assessing their own performance.

Source: (OECD, 2015^[1]), Figure 3.3 (updated in 2017).

Approach

The analytical framework presented above informed the data collection and the analysis presented in the report. The present report looks at the internal and external governance arrangements of Latvia's Public Utilities Commission (PUC) in the following areas:

- **Role and objectives:** to identify the existence of a set of clearly identified objectives, targets, or goals that are aligned with the regulator's functions and powers, which can inform the development of actionable performance indicators;

- **Input:** to determine the extent to which the regulator's funding and staffing are aligned with the regulator's objectives, targets or goals, and the regulator's ability to manage financial and human resources autonomously and effectively;
- **Process:** to assess the extent to which processes and the organisational management support the regulator's performance;
- **Output and outcome:** to identify the existence of a systematic assessment of the performance of the regulated entities, the impact of the regulator's decisions and activities, and the extent to which these measurements are used appropriately.

Data informing the analysis presented in the report was collected via a desk review and a fact-finding mission:

- **Questionnaire and desk review:** PUC completed a detailed questionnaire which informed a desk review by the OECD Secretariat. The Secretariat reviewed existing legislation and PUC documents to update its understanding on the *de jure* functioning of the regulator, and to inform the fact-finding mission. This questionnaire was tailored to PUC for a second follow-up review of the PUC's progress, based on the findings of the 2016 PAFER report (OECD, 2016^[20]) and the 2021 progress review report (OECD, 2021^[3]), methodology already applied by the OECD to other regulators since 2015 and on the participation of PUC to former OECD data collection exercises such as the 2023 Indicators on the Governance of Sector Regulators.
- **Fact-finding mission:** the fact-finding mission focused on meeting PUC internal teams as well as external stakeholders. The mission took place between 3 and 6 October 2023, and it was a key tool to collect and complete the *de jure* information obtained through the questionnaire with the *de facto* state of play and progress on recommendations. The work of the fact-finding mission tailored the PAFER methodology to PUC features. Information collected was completed and checked with the PUC for accuracy. The mission took place in person in Riga.

During the fact-finding mission, the team met with PUC's leadership team as well as several staff members from across the institution. In addition, the team met with government institutions and external stakeholders, including:

- Ministry of Finance of the Republic of Latvia
- Ministry of Economics of the Republic of Latvia
- Ministry of Climate and Energy of the Republic of Latvia
- Ministry of Environmental Protection and Regional Development of the Republic of Latvia
- Ministry of Transport of the Republic of Latvia
- Economic, Agricultural, Environmental and Regional Policy Committee of the Saeima
- Competition Council of the Republic of Latvia
- State Audit Office of the Republic of Latvia
- Consumer Rights Protection Centre of the Republic of Latvia (PTAC)
- Meetings with industry representatives - Augstsprieguma tīkls (electricity TSO), Tele2 (telecom provider) and Rīgas ūdens (water company).

References

- OECD (2024), *Driving Performance at Brazil's National Agency for Water and Basic Sanitation*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/5b7dffa0-en>. [16]
- OECD (2023), *Progress Review of Peru's Telecommunications Regulator: Driving Performance*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/a6a74d3e-en>. [11]
- OECD (2022), *Driving Performance at Peru's Water and Sanitation Services Regulator*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/89f3ccee-en>. [15]
- OECD (2021), *Driving Performance at Portugal's Energy Services Regulatory Authority*, OECD, <https://doi.org/10.1787/05fb2fae-en>. [14]
- OECD (2021), *Progress Review of Latvia's Public Utilities Commission: Driving Performance*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/6c2ee469-en>. [3]
- OECD (2020), *Driving Performance at Ireland's Environmental Protection Agency*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/009a0785-en>. [13]
- OECD (2020), *Driving Performance at Peru's Transport Infrastructure Regulator*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/d4ddab52-en>. [12]
- OECD (2019), *Driving Performance at Peru's Energy and Mining Regulator*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264310865-en>. [9]
- OECD (2019), *Driving Performance at Peru's Telecommunications Regulator*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264310506-en>. [10]
- OECD (2018), *Driving Performance at Ireland's Commission for Regulation of Utilities*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264190061-en>. [8]
- OECD (2017), *Driving Performance at Mexico's Agency for Safety, Energy and Environment*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264280458-en>. [7]
- OECD (2017), *Driving Performance at Mexico's Energy Regulatory Commission*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264280830-en>. [5]
- OECD (2017), *Driving Performance at Mexico's National Hydrocarbons Commission*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264280748-en>. [6]
- OECD (2017), *Driving Performance of Mexico's Energy Regulators*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264267848-en>. [4]
- OECD (2016), *Driving Performance at Latvia's Public Utilities Commission*, The Governance of Regulators, OECD Publishing, Paris, <https://doi.org/10.1787/9789264257962-en>. [2]

- OECD (2016), *Driving Performance at Latvia's Public Utilities Commission*, OECD, [20]
<https://doi.org/10.1787/9789264257962-en>.
- OECD (2015), *Driving Performance at Colombia's Communications Regulator*, OECD [1]
Publishing, Paris, <https://doi.org/10.1787/9789264232945-en>.
- OECD (2014), *OECD Framework for Regulatory Policy Evaluation*, OECD Publishing, Paris, [17]
<https://doi.org/10.1787/9789264214453-en>.
- OECD (2014), *The Governance of Regulators*, OECD Best Practice Principles for Regulatory [18]
Policy, OECD Publishing, Paris, <https://doi.org/10.1787/9789264209015-en>.
- OECD (2004), *The choice of tools for enhancing policy impact: Evaluation and review*, OECD, [19]
Paris,
[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=gov/pgc\(2004\)4&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=gov/pgc(2004)4&doclanguage=en) (accessed on 16 November 2018).

The Governance of Regulators

Second Progress Review of Latvia's Public Utilities Commission

DRIVING PERFORMANCE

Regulators act as “market referees”, balancing the often-competing interests of stakeholders such as governments, current and future actors in the markets, and consumers. At the same time, markets are rapidly changing due to new technologies, the international drive toward carbon-neutral economies, and, more recently, the COVID-19 pandemic and energy and cost-of-living crises. Continuously assessing the performance of economic regulators is thus important to ensure regulators continue to perform in a changing context.

This second progress review evaluates the changes made by Latvia's Public Utilities Commission over the last three years to implement 2016 OECD recommendations, following a first progress review in 2021. The review tracks progress and provides advice on how to increase the effectiveness of regulatory activities and, ultimately, improve outcomes for consumers and the economy.



PRINT ISBN 978-92-64-52246-6

PDF ISBN 978-92-64-39797-2



9 789264 522466