

Executive summary

The Public Utilities Commission (PUC) is Latvia's multi-sector economic regulator for energy, electronic communications, postal services, water management, waste disposal service and deposit system service. It was established in 2001, following a legislative reform aimed at liberalising the utilities sectors in Latvia.

Following an in-depth peer review of its governance and performance by the OECD in 2016 (OECD, 2016^[1]), the PUC invited the OECD to carry out an independent progress review of the implementation of recommendations put forward in 2016.

The progress review finds that the PUC has made substantial advances in implementing the recommendations put forward in the 2016 review, in the interest of increasing the effectiveness of its regulatory activities and final outcomes for consumers and the economy. The PUC has updated its internal processes and procedures, but, importantly, it has also successfully advocated for legislative changes and implemented reforms in several areas. The main changes implemented at the PUC since 2016 relate in particular to the following four areas: a new fee-setting process; the introduction of incentive-based regulation; a new process for the selection of Board of Commissioners; and the establishment of the Advisory Council.

The breadth and scope of the 2016 recommendations required the PUC to co-operate with a number of stakeholders. In particular, for reforms requiring legislative change, the PUC worked closely with the Ministries of Economy and Finance and with the parliament. In this regard, the PUC was able to advocate for change in a positive political context, given the momentum that came with Latvia's accession to the OECD during 2016. However, it is to be noted that the PAFER review and its recommendations did not form part of Latvia's official OECD accession process.

Role and objectives of the PUC

Previous recommendations focused on the clarification of goals and priorities of the regulator, as well as on the introduction of incentive regulation and the establishment of a consultative council for the formulation of the regulator's strategy. Significant progress has been noted.

Assessment of progress on key recommendations and suggestions for way forward

- The PUC now has a stronger focus on goals and outcomes, and it developed strategic directions that meet the interests of network users. This can be further strengthened by measuring progress against key performance indicators.
- The PUC is better equipped with the introduction of incentive regulation and its new power to amend tariff proposals. It should now try to fine-tune the efficiency incentives it sets to increase their impact.

- The PUC established the Advisory Council in 2020 in response to OECD recommendations, which provides a mechanism to develop and oversee the implementation of PUC's strategic framework. Going forward, the PUC will need to manage expectations around the work and function of the Council.

Input

Previous recommendations focused on the regulator's fee setting process, the impact of its salary cap and a total awards approach to increase job attractiveness. Strong progress has been noted already at the PUC in these areas.

Assessment of progress on key recommendations and suggestions for way forward

- The PUC successfully advocated for a new fee setting process that is more robust and reduces potential influence from the government or ministries over the fee. To continue this positive progress, there is a need for clear criteria and procedures for fee revision in order to ensure a cost-reflective fee level in the long term.
- The competitiveness of PUC salaries has improved. In 2016 the PUC implemented a new bonus system for staff members, with financial and non-financial incentives. Moving forward, the PUC should assess the impact of the current salary cap on its ability to attract and retain talent for senior positions.

Process

Previous recommendations focused on the introduction of staggered terms for board members and their remuneration during the cooling-off period, further utilisation of the PUC's multi-sector model and more regular exchanges with parliament. The PUC made significant progress, although the degree of progress differs between areas.

Assessment of progress on key recommendations and suggestions for way forward

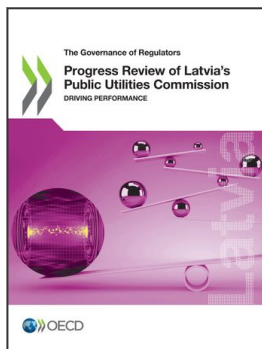
- The PUC advocated for a more robust process for the selection of Board members with staggered terms and a maximum of two confirmations or renewals in one calendar year, an important improvement that strengthens the continuity and institutional memory within the PUC.
- Staff mobility within the PUC takes place on a case-by-case basis. An overarching mobility strategy and streamlined practices on topics such as *ex ante* impact analyses and *ex post* reviews will allow the PUC to fully leverage its multi-sector model.
- The PUC presents an action plan and annual report to parliament, but the current level of engagement and available time remain limited. Moving forward, the PUC should endeavour to increase the level of engagement, for example by developing more regular and strategic exchanges with parliament and parliamentary committees, to further demonstrate its value.
- Advancement on the recommendation to amend the remuneration of Board members during the two-year cooling-off period is limited. A proposed amendment to existing legislation that includes a compensation mechanism could help secure the PUC's ability to recruit board members from diverse backgrounds.

Output and outcome

Previous recommendations focused on the development of a performance assessment matrix and the employment of data-driven tools for enabling stakeholder communication and consumer choice. More efforts are needed in these areas.

Assessment of progress on key recommendations and suggestions for way forward

- The PUC assesses progress against objectives, but does not apply performance indicators. It could further explore the development of a performance assessment matrix with key indicators, to measure progress and communicate with stakeholders on its performance. This will allow the PUC to increase transparency and accountability.
- There are limited comparison tools for e-communications and energy. Going forward, the PUC should aim to increase the availability of data-driven tools and consumer education platforms which make use of extensive data.



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