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If a whole or part of a paragraph has been amended, the date of the amending regulation appears in square brackets at the end of the paragraph. If a whole paragraph or sub-paragraph has been deleted, the date of the deletion appears in square brackets beside the deleted paragraph or sub-paragraph.

Decision No. 1/2 of the Board of the Public Utilities Commission
Adopted 14 January 2016

Methodology for the Calculation of Tariffs for the Water Management Services

*Issued pursuant to
Section 9, Paragraph one, Clause 2 and Section 25,
Paragraph one of the law On Regulators of Public Utilities*

1. General Provisions

1. The Methodology prescribes the procedures for calculating draft tariffs for water management services by a regulated provider of public water management services (hereinafter - the Merchant).

2. The same terms as used in the Law On Water Management Services and the following terms are used in the Methodology:

2.1. **centralised sewerage engineering network** - an aggregate of engineering networks and structures in the ownership, possession or holding of the Merchant which ensures collection of wastewater from customers and drainage to wastewater treatment facilities;

2.2. **centralised water supply engineering network** - an aggregate of engineering networks and structures in the ownership, possession or holding of the Merchant which ensures supply of water to customers;

2.3. **wastewater transferred for treatment to other provider of sewerage services** - the amount of wastewater which is transferred into the centralised sewerage system of other provider of sewerage services and determined by the commercial meter installed in a junction point of a commercial meter;

2.4. **amount of wastewater treated in wastewater treatment facilities of the Merchant** - the volume of the treated wastewater which is determined according to accounting meters (in wastewater treatment facilities with actual productivity above 20 m³ per day) or indirect productivity accounting methods (in wastewater treatment facilities with actual productivity from 5 to 20 m³ per day);

2.5. **amount of water supplied to customers** - the amount of water which is supplied to customers and accounted by commercial meters or which is determined according to the water consumption norms used in the settlement of accounts;

2.6. **amount of wastewater collected from customers** - the amount of wastewater collected from proprietary border which is determined according to commercial meters, or the water consumption or wastewater norms used in the settlement of accounts, and also the amount of content of waterless toilets and accumulation tanks drained into the centralised sewerage system;

2.7. **amount of other wastewater drained into the centralised collecting system** - the amount of the wastewater which has not been collected according to commercial meters, or the water consumption or wastewater norms used in the settlement of accounts (infiltration, etc.);

2.8. **regulatory asset base (RAB)** - the value of fixed assets and intangible investments owned by the Merchant which are attributable to the regulated water management service;

2.9. **water and wastewater balance** - information regarding water amounts in the centralised water supply system and wastewater amounts in the centralised sewerage system;

2.10. **water amount for technological needs** - the difference in the amount of water taken from natural water sources (the water abstracted by the Merchant himself) and the obtained water which is supplied into the centralised water supply engineering network, which comprises the amount of water used by the Merchant for the needs of technological processes of water abstraction, preparation, ensuring of pressure and reserves, and water losses in the engineering networks of the production stage of drinking water;

2.11. **water losses in centralised water supply engineering networks** - the difference between the amount supplied into the centralised water supply engineering network and delivered to customers by the Merchant which includes the losses related to the liquidation of emergency situations and servicing of centralised water supply engineering networks, measurement errors occurring as a result of differences between the quantity of abstracted water and water supplied to customers, the losses related to inaccurately accounted quantity of water supplied to customers, excluding the water consumption for technological needs;

2.12. **water supply services** - services in water abstraction, accumulation, ensuring of pressure and preparation for use up to the supply into the centralised water supply engineering network (hereinafter - water production service), services in the water supply from the supply point in the centralised water supply engineering network up to a proprietary border (hereinafter - water supply service);

2.13. **sewerage services** - services in the wastewater collection in the centralised sewerage engineering network from a proprietary border and drainage up to wastewater treatment facilities (hereinafter - wastewater collection service), wastewater treatment and drainage in the environment, including in surface water bodies (hereinafter - wastewater treatment service);

2.14. **water management services** - within the meaning of this Methodology water supply and sewerage services;

2.15. **draft tariff for water management services:**

2.15.1. **draft tariff for water production** - the draft tariff for the abstraction, accumulation, ensuring of pressure and preparation of water for the use up to supply into the centralised water supply engineering network;

2.15.2. **draft tariff for water supply** - the draft tariff for water supply from the supply into the centralised water supply engineering network up to a proprietary border;

2.15.3. **draft tariff for water supply services** - the draft tariff for water production together with the draft tariff for water supply;

2.15.4. **draft tariff for wastewater collection** - the draft tariff for wastewater collection in the centralised sewerage engineering network from a proprietary border and drainage up to wastewater treatment facilities;

2.15.5. **draft tariff for wastewater treatment** - the draft tariff for wastewater treatment and drainage in the environment, including in surface water bodies;

2.15.6. **draft tariff for sewerage services** - the draft tariff for wastewater collection together with the draft tariff for wastewater treatment;

2.16. **total amount of water supplied into the centralised water supply engineering network** - the difference in the amount of water taken from the natural water sources (the water abstracted by the Merchant himself) and the amount of water used for technological needs to which the amount of water prepared by and purchased from other providers of water management services which is supplied into the centralised water supply engineering network, is added.

[22 February 2018]

3. The Merchant shall submit to the Public Utilities Commission (hereinafter - the Regulator) the original of the draft tariff document of water management services (in printed form or signed using an electronic signature in accordance

with the procedures laid down in the laws and regulations), which comprises one or several draft tariffs indicated in Sub-paragraph 2.15 of the Methodology (hereinafter - the draft tariff), and the electronic form of the document (if the original of the draft tariff has been submitted in printed form). The Merchant shall, together with the draft tariff, submit documents which have been determined in the decision taken by the Regulator in relation to justification of costs forming the tariff, revealing justification for costs forming the tariffs referred to in the calculation of the draft tariff.

4. Upon submitting the draft tariff, the Merchant shall specify the territory to which the draft tariff will apply.

2. General Provisions for the Calculation of the Draft Tariff

5. The Merchant shall calculate equal draft tariff for all customers of the Merchant, but, if there is an objective economic or technical justification for it, the Merchant may calculate different draft tariffs for separated centralised water supply systems and separated centralised sewerage systems. When calculating different draft tariffs, the Merchant shall justify the cost assignment methods applied.

6. If there is an objective economic or technical justification for it, the Merchant may calculate different draft tariffs of water supply services for a customer to whom the amount of service provided through one pipe entry exceeds 10% of the total amount of water supply service provided by the Merchant in the relevant separated network. When calculating different draft tariffs, the Merchant shall justify the cost assignment methods applied. When calculating different draft tariffs, the Merchant shall justify the economic benefit for other customers.

7. The costs and volumes of services in the draft tariff shall apply to the time period of one year. The tariff determined shall be in effect until a new tariff is determined.

8. The Merchant shall accurately and clearly present the costs of the service in the draft tariff, including only the assets and activities related to the relevant water management service therein.

9. The Merchant shall include only such technologically and economically substantiated costs in the draft tariff which are necessary for efficient provision of the relevant water management service.

10. The Merchant shall not include such costs in the draft tariff which are related to the maintenance of separated rain sewerage systems.

11. The draft tariff shall not include costs for writing off bad and non-recoverable debts of debtors and creation of reserves, except the cases laid down in the Law On Administration of Residential Houses, when the Merchant has a duty to reduce the amount of debt liabilities in its accounting for the sum of debt that cannot be recovered, if the Merchant proves it with documents that he has duly carried out all actions in order to ensure recovery of debts and limit the amount of debts.

12. The draft tariff shall not include the costs which are related to servicing of internal networks of the immovable property, the costs which are related to water losses in the internal water main of buildings or structures, and also the costs which arise when performing direct settlements of accounts with apartment owners in apartment buildings.

13. If the Merchant accepts wastewater with pollution exceeding threshold (with higher permissible concentration of substances than it is laid down in the laws and regulations), the costs related to treatment process of such kind of wastewater shall be attributed using the method indicated in the Merchant's accounting policy or other internal document, or the Merchant shall reduce the full costs included in the draft tariff for wastewater treatment service by revenue calculated in accordance with the laws and regulations which is obtained for treatment of wastewater with pollution exceeding threshold and multiplied by a coefficient which is not less than 0.93.

14. The Merchant shall evaluate any profit in the draft tariff as the resources necessary for the development of water management services, operational reserves and attraction of current assets. Profit in terms of percentage may not exceed profitability in the amount of 7%, which has been calculated in per cent from the costs of the provision of the water management service, without including the unforeseen costs specified in Paragraph 17.¹ in the full costs to be included in the draft tariff in the profitability calculation.

[22 February 2018]

15. The Merchant shall use the foreseen amounts of water management services for the calculation of the draft tariff. When foreseeing the amounts of water management services, the Merchant shall take into account the actual amounts of water management services of the previous reporting year and the foreseen amounts for the current year, and also the changes in the number of connections to centralised water supply and centralised sewerage engineering networks planned, and other factors affecting the amount of water management service. The Merchant shall submit information regarding the planned changes in the number of connections to centralised water supply and centralised sewerage engineering networks together with the draft tariff.

[22 February 2018]

16. The Merchant shall indicate the amounts of water management services in the balance of water and wastewater in accordance with Annex 1 of this Methodology.

17. The Merchant shall indicate the calculation of the draft tariff and the costs included in the draft tariff in accordance with Annex 2 to this Methodology.

17.¹ The Merchant may include in the draft tariff calculation the unforeseen costs of the previous period which is not longer than one year. The unforeseen costs shall be comprised of changes in payments, if water management services are purchased from other provider of public water management services. The Merchant shall distribute the unforeseen costs of the previous period for a time period not longer than two years, by calculating draft tariffs for water management services for the relevant time period. The Merchant shall concurrently calculate draft tariffs for water management services without unforeseen costs.

[22 February 2018]

18. A tariff for water supply services and a tariff for sewerage services shall be approved for the Merchant. If the Merchant provides only one type of water management services to a customer, a separate water production tariff, water supply tariff, wastewater collection tariff, wastewater treatment tariff shall be approved for the Merchant.

19. If the Merchant, when providing water management services to other provider of water management services, in accordance with the Law On Water Management Services, has agreed on fee for the provision of services, the Merchant may not increase the tariff in respect of other customers of the Merchant as a result of the agreement entered into.

20. If indicators of the amount of water management services used for the calculation of the currently effective tariff change by more than 10% or if costs included in the calculation of the currently effective tariff change by more than 10%, the Merchant shall submit to the Regulator a new draft tariff which has been calculated on the basis of adjusted amounts of water management services and costs, or an explanation on reasons for changes shall be submitted to the Regulator together with the annual report to be submitted to the Regulator regarding the costs, revenue, amount of public utilities and characterisation of centralised water supply and sewerage systems.

3. Costs to be Included in the Draft Tariff

21. The full costs to be included in a draft tariff (IP) shall be calculated according to the following formula:

$$I_P = (I_{nol} + I_{eksp} + I_{nod} + I_k) - I_{ie\eta} + I_r + I_{nep}$$

where

I_{nol} - depreciation of fixed assets and the book value of written-off intangible investments (EUR);

I_{eksp} - operating costs (EUR);

I_{nod} - tax payments (EUR);

I_k - interest payments and repayment of the principal amount of long-term credits (EUR);

$I_{ie\eta}$ - revenue in accordance with Paragraphs 13 and 78 of the Methodology (EUR);

I_r - profit calculated so that profitability (R) would conform to the provisions laid down in Paragraph 14 of the Methodology ($R = I_r / (I_P - I_{nep}) \leq 7\%$) (EUR);

I_{nep} - unforeseen costs in accordance with Paragraph 17.¹ of the Methodology (EUR).

[22 February 2018]

3.1. Depreciation of Fixed Assets and the Book Value of Written-off Intangible Investments

22. The depreciation of fixed assets and the book value of written-off intangible investments shall be calculated according to the following formula:

$$I_{nol} = I_{nol.pam} + I_{nol.nem}$$

where

I_{hol} - depreciation of fixed assets and value of written-off intangible investments (EUR);

$I_{\text{hol.pam}}$ - depreciation of fixed assets (EUR);

$I_{\text{hol.nem}}$ - value of written-off intangible investments (EUR).

23. Depreciation of fixed assets shall be calculated in accordance with the effective laws and regulations governing the field of accounting and the accounting policy adopted by the Merchant. The Regulator may require the Merchant to submit an evaluation of the technical condition and the operating life of the fixed assets.

24. If the Merchant uses the inclusion of repayment of the principal sum of a long-term credit provided for in Paragraph 37 of the Methodology in tariffs, the calculated depreciation shall be reduced by the depreciation sum corresponding to the remaining value of the fixed assets indicated in Paragraph 37 of the Methodology.

25. If the fixed assets are not used at full intensity, the calculated depreciation shall be adjusted in such a way that it corresponds to an efficient use of the fixed assets.

26. The write-off of the intangible investment value shall be calculated for the development costs of the Merchant, the costs arising from concessions, patents, licences, trademarks and other intangible investments (except the intangible value of the Merchant), taking into account the accounting policy adopted by the Merchant.

27. In calculating the depreciation for fixed assets which have been financed from a financial assistance or financial aid received from a State, local government, foreign, European Union or other international organisation and institution, the value of fixed assets shall be reduced by the value of the relevant financial assistance or financial aid which has been indicated in the item of the balance sheet "Deferred Revenue" and specified in accordance with the procedures stipulated by the Cabinet by which financial aid (financial assistance) of State, local government, foreign, European Union or other international organisations and institutions, donations and gifts in cash or in kind, shall be reflected in financial statements.

28. Depreciation calculated for fixed assets which are financed using financial resources of international financial institutions, European Union or Member States thereof, may be included in the draft tariff only in such amount which does not exceed the level planned for the relevant year in the specific draft documentation accepted by the responsible institution or its co-operation institution responsible for the specific draft.

3.2. Operating Costs

29. Operating costs **in the draft tariffs of water production, wastewater treatment and wastewater collection** shall be calculated according to the following formula:

$$I_{\text{ekspl}} = I_{\text{pers}} + I_{\text{rem}} + I_{\text{saimn}},$$

where

I_{ekspl} - the operating costs (EUR);

I_{pers} - the staff costs (EUR);

I_{rem} - the costs of maintenance and repairs of fixed assets (EUR);

I_{saimn} - other costs of economic activity (EUR).

30. Operating costs in the draft tariff for water supply shall be calculated according to the following formula:

$$I_{\text{ekspl}} = I_{\text{zud.tp}} + I_{\text{pers}} + I_{\text{rem}} + I_{\text{saimn}},$$

where

I_{ekspl} - the operating costs (EUR);

I_{zud} - the costs of water losses (EUR);

I_{pers} - the staff costs (EUR);

I_{rem} - the costs of maintenance and repairs of fixed assets (EUR);

I_{saimn} - other costs of economic activity (EUR).

31. The costs of water losses shall be calculated according to the following formula:

$$I_{zud} = Q_{zud} \times (I_{UR} / Q_{UR}) ,$$

where

I_{zud} - the costs of water losses (EUR);

Q_{zud} - the amount of water losses in centralised water supply engineering networks (m³);

I_{UR} - the costs included in the tariff of water production (without profitability), (EUR);

Q_{UR} - the total amount of water supplied into the centralised water supply engineering networks (m³).

32. Staff costs (I_{pers}) shall be calculated in accordance with the laws and regulations governing employment legal relationship and the field of social insurance. Staff is all employees of the Merchant involved in the provision of water management services (including also administrative staff) in proportion to their participation in the provision of the relevant water management service. The staff costs do not include remuneration of those employees or part thereof which is attributable to the provision of management services of residential houses.

33. The costs of maintenance and repairs of fixed assets (I_{rem}) shall include costs for maintenance works, servicing and repairs of fixed assets (buildings, structures, equipment etc.) used in the provision of water management services which the Merchant purchases as an outsourced service. The costs listed in this item shall be written off in the reporting period in which they have arisen. The repair necessity shall be determined by the duty to ensure safe and continuous provision of water management services. The repair costs which are capitalised, shall not be included in this item.

34. Other costs of economic activity (I_{saime}) shall be the costs related to the economic activity of the Merchant, including administrative costs, in conformity with distribution of administrative costs which are necessary in order to ensure the provision of water management services and are not recorded under other balance items of costs. The costs referred to in Paragraph 4 of Annex 2 to the Methodology shall be included in other operating costs:

34.1. the costs of purchased water, if the Merchant purchases water from another merchant for provision of services - include costs for purchase of water prepared for use from another provider of water management services;

34.2. the costs of wastewater drained for treatment, if the Merchant drains collected wastewater in the centralised sewerage system of another merchant - include costs for treatment of such wastewater which is collected from customers and transferred for treatment to another provider of water management services;

34.3. other costs of administration not included elsewhere - include costs for drawing up an annual statement and performance of an audit, associated expenses of money turnover, costs for outsourced services of accounting, purchase of press publications, costs for informing of the society, and other costs of similar type;

34.4. the costs of materials - include costs for purchase of the materials necessary for the maintenance and repair works of centralised water supply systems and sewerage systems, the costs for purchase of the materials for disinfection of water reservoirs and water tower containers, repair works of electronic equipment, repairs of water management objects, the costs for preparation of water (chemical reagents, materials for change of filters and rinsing), treatment of wastewater (reagents for separation of nitrogen and phosphorus), treatment of wastewater sludge (flocclulants), and other costs of similar type. The costs of financing maintenance of the supplies shall be included in this item according to the planned life cycle of the supplies by applying the actual rate of loans of the Merchant. The costs of financing maintenance of the supplies shall be evaluated taking into account the amount of supplies which is required for the provision of public utilities that comply with the continuity and safety requirements. If the actual rate of a loan applied to evaluate the costs of financing the supplies exceeds the average variable interest rate (for new transactions) of short-term credits (euro) issued to non-financial corporations published by the Bank of Latvia for the last six months according to the amounts of supplies, the costs of financing maintenance of the supplies shall be evaluated by applying the average variable interest rate (for new transactions) of short-term credits (euro) issued to non-financial corporations published by the Bank of Latvia for the last six months according to the amounts of supplies. The costs of financing supplies maintained for the needs of capitalised repairs and establishment of new fixed assets shall not be recorded in this item;

34.5. costs of electricity, heating fuel, heat energy, gas - include the costs of electricity, fuel, gas and heat consumed for the both provision of water supply and sewerage services and administration needs;

34.6. security guard costs - include the security guard costs of administration buildings, water management objects (wastewater treatment facilities, sewerage pumping stations, water preparation equipment, etc.) and objects related to the provision of water management services (garages, workshops, etc.);

34.7. vehicle maintenance costs - include the costs of fuel, technical service, repair and purchase of spare parts of vehicles and equipment, the costs of technical inspection and insurance of vehicles, the vehicle operation tax and company car tax, the costs of lease of vehicles (including payments of operative leasing), leasing interest, and other costs of similar type;

34.8. immovable property rent costs - include rent payment of land and immovable property;

34.9. insurance costs - include the costs of insurance of immovable property, civil liability insurance, health insurance and insurance in case of accidents of employees;

34.10. the costs of communication services - include the costs for fixed and mobile communications services, Internet services, the costs for postal services;

34.11. the costs for purchase of office supplies - include the costs for purchase of office supplies for the needs of both the administration and water management sector;

34.12. staff training costs - include the costs for both the training of employees of the administration and water management sector;

34.13. the costs of legal services - include the costs for services of lawyers, including sworn notaries, the costs for recovery of debts for the provision of water management services up to the proprietary border in residential houses and from legal persons (do not include the costs for recovery of debts from apartment owners in apartment buildings in cases of direct payments), and other costs of similar type;

34.14. costs of environmental status control- include the costs for the performance of analyses of drinking water and wastewater;

34.15. the costs of business trips - include the costs of business trips and official journeys;

34.16. other costs - include the costs for purchase of non-valuable inventory, the costs for labour protection, membership fees in sectoral associations, the costs for verification and purchase of commercial meters and control meters of pipe entry and exit (if they are not included in costs item - depreciation of fixed assets), the costs for maintenance of the territories of water management objects (services which are purchased as an outsourced service - mowing, putting in order collecting ditches, etc.), the costs for removal of sludge, the costs for removal of municipal waste, cleaning of pools of wastewater treatment facilities, maintenance and service of automated data management systems, maintenance of computer programs, computers and office equipment, and other costs of similar type;

34.17. fee payments - include fee payments for public utilities regulation, State fee payments of entrepreneurial risk, fee payments for issuing permits for use of water resources and polluting activity, and State fees of other type.

[22 February 2018]

3.3. Tax Payments

35. The Merchant shall indicate separately in the draft tariff the following taxes (Inod) calculated in accordance with laws and regulations:

35.1. the natural resources tax which is related to the provision of the relevant water management service;

35.2. the immovable property tax for the buildings, structures and land which are owned, possessed and held by the Merchant and used for the provision of water management services;

35.3. the enterprise income tax for the revenue obtained from the provision of the relevant water management service.

3.4. Credit Interest Payments and Repayment of the Principal Sum

36. The Merchant shall include interest payments of a long-term credit (5 years and more) in the draft tariff, if the long-term credit is used for the establishment of new fixed assets for the provision of water management services. The Merchant may include in the calculation of the draft tariff substantiated interest payments of a short-term credit (up to 5 years), if the relevant credit is related to the establishment of new fixed assets and attraction of monetary funds from a State, local government, foreign, European Union, another international organisation or institution is intended.

37. The Merchant may include the repayment of the principal sum of a long-term credit (5 years and more) in the draft tariff, if the depreciation of the fixed assets purchased for the relevant credit throughout the use of the fixed assets is not included in the draft tariff, ensuring individual accounting of such fixed assets in the accounting system.

38. If repayment of the principal sum of a credit has been included in the approved tariff for water management

services in accordance with Paragraph 37 of the Methodology, the Merchant shall, not later than six months before repayment of the principal sum of the relevant credit, submit a new draft tariff to the Regulator, not including the depreciation of the fixed assets purchased for the relevant credit in the draft tariff.

39. If the term of the credit included in the costs forming the approved tariff of the water management services, the conditions for payment of credit interest or repayment of the principal sum change, the Merchant shall inform the Regulator regarding changes within one month after making of the relevant changes in the contract with the creditor.

4. Calculation of the Draft Tariff if Return of Capital is Included in Costs

40. The Merchant the balance sheet of which includes centralised water supply and drainage pipelines the age of which exceeds 40 years, and the total proportion of such pipelines exceeds 40% from all centralised water supply and drainage pipelines of the Merchant (by counting the length of pipelines in kilometres), may include return of capital in the draft tariff in accordance with the procedures laid down in this Chapter.

41. The Merchant which includes return of capital in the draft tariff, shall not include the profitability specified in Paragraph 14 of the Methodology, the credit interest specified in Paragraph 36 of the Methodology and the repayment of the principal sums of long-term credits (5 years and more) specified in Paragraph 37 of the Methodology in the draft tariff.

42. The Regulator shall, once a year until 1 September, prepare calculation for the rate of return of capital and approve the rate of return of capital with a decision. The rate of return of capital laid down by the Regulator shall be applied when developing the draft tariffs the date of coming into effect of which is planned in the next calendar year after the date of taking of the decision of the Regulator on determination of the rate of return of capital.

[24 November 2016]

43. The Merchant which includes return of capital in the draft tariff, shall submit information regarding the planned (annual) amount of investments and the investments actually made during the preceding period together with the draft tariff.

44. The full costs (IP) to be included in the draft tariff shall consist of capital costs (I_{kap}), operational costs (I_{eksp}) and taxes (I_{nod}). Only such costs that relate to the provision of the specific water management service and are substantiated shall be included in the draft tariff.

$$I_P = I_{kap} + I_{eksp} + I_{nod}$$

45. The capital costs shall consist of depreciation and return of capital:

$$I_{kap} = I_{nod} + P_{KA} ,$$

where

I_{kap} - capital costs (EUR);

I_{nod} - depreciation of fixed assets and the book value of written-off intangible investments (EUR);

P_{KA} - return of capital (EUR).

46. Depreciation of fixed assets and the book value of written-off intangible investments in the draft tariff shall be calculated in accordance with the procedures laid down in Sub-chapter 3.1 of the Methodology.

47. RAB and the rate of return of capital shall be used for determination of the costs of capital. Return of capital in the draft tariff shall be calculated according to the following formula:

$$P_{KA} = RAB \times wacc,$$

where

P_{KA} - return of capital (EUR);

RAB - regulatory asset base (EUR);

wacc - weighted average cost of capital in per cent (%).

[22 February 2018]

48. The RAB shall be determined for the beginning of the year by relating only eligible assets or part thereof to it,

using in calculations the residual value of the balance sheet at the end of the year from the financial statement of the previous year. Financial investments, amounts receivable, securities and equity participation, monetary instruments, supplies, costs of establishment of fixed assets and of unfinished construction objects, and also the part of the fixed asset value which is financed using financial assistance or financial aid of a State, local government, foreign state, European Union, other international organisation and institution shall not constitute the base of the regulatory assets.

[22 February 2018]

49. [24 November 2016]

50. The balance sheet value of the fixed assets which are not efficiently used in the provision of services, shall not be included in the RAB or shall be partially included therein, and the depreciation of the relevant fixed assets shall not be included in the draft tariff. If assets or their part not used for the provision of services are included in the draft tariff, the Merchant shall also make adjustments to the calculation of the return of capital. The Regulator may require the Merchant to submit an evaluation of the technical condition and the operating life of the fixed assets.

51. The rate of return of capital shall be the average weighted rate, determined by the Regulator, of the rate of return laid down for equity capital and of the return rate laid down for the borrowed capital; The weighted average rate of return of capital shall be calculated as follows:

$$wacc = r_e \times E/(E+D) + r_d \times D/(E+D) \times (1-t) ,$$

where

r_e - the rate of return of equity capital in per cent (%);

$E/(E+D)$ - the ratio of equity capital to total (equity and borrowed) capital, and the value of the ratio is valued at 50 %;

r_d - the rate of return of borrowed capital in per cent (%);

$D/(E+D)$ - the ratio of borrowed capital to total (equity and borrowed) capital, and the value of the ratio is valued at 50 %;

t - the enterprise income tax rate.

[24 November 2016]

52. The rate of return of equity capital shall be calculated as follows:

$$r_e = r_f + \beta_e \times r_m + r_n ,$$

where

r_f - a risk-free rate determined as the annual average interest rate within a time period of 5 years (%) of the secondary market yields of Latvian government bonds with a 10-year maturity published monthly by the European Central Bank;

β_e - the average beta coefficient of the sector which is adjusted in conformity with the structure of equity and borrowed capital in conformity with the following formula:

$$\beta_e = \beta_a \times (1 + (1-t) \times (D/E)),$$

where β_a - the average beta coefficient of the sector before the adjustment in relation to the use of borrowed capital;

D/E - the average ratio of borrowed and equity capital of the sector. Taking into account that the ratio of equity capital to total capital and the ratio of borrowed capital to total capital are equal, $D/E=1$;

r_m - market risk supplement (%);

r_n - sector risk supplement (%).

[24 November 2016]

53. The rate of return of the borrowed capital r_d shall be determined as the annual average interest rate within a time period of 5 years of credits (with the initial period not longer than 5 years; balance) issued to non-financial corporations in euros published monthly by the European Central Bank.

[24 November 2016]

54. Operational costs in the draft tariff shall be calculated in accordance with the procedures laid down in Sub-chapter 3.2 of the Methodology.

55. The Merchant shall indicate the taxes included in the draft tariff in accordance with the procedures laid down in Sub-chapter 3.3 of the Methodology.

56. The Merchant which calculates the full costs to be included in the draft tariff in accordance with the procedures laid down in this Chapter, shall:

56.1. indicate the calculation of the return of capital in accordance with Annex 3 to the Methodology;

56.2. indicate the calculation of the draft tariff and the costs included in the draft tariff in accordance with Annex 4 to this Methodology.

5. Calculation of the Draft Tariffs for Water Management Services

57. The total costs of water management services (IP) shall be attributed to all types of water management services in order to determine the costs of each type of water management service.

$$I_P = I_{P_{UR}} + I_{P_{UPS}} + I_{P_{NS}} + I_{P_{NA}}$$

58. The Merchant shall calculate **the draft tariff for water production** according to the following formula:

$$T_{UR} = I_{P_{UR}} / Q_{UR} ,$$

where

T_{UR} - draft tariff for water production (EUR/m³);

$I_{P_{UR}}$ - full costs included in the draft tariff for water production (EUR);

Q_{UR} - the total amount of water supplied into the centralised water supply engineering network (m³).

59. The Merchant which purchases prepared water from another provider of water management services, shall calculate the draft tariff for water production in conformity with the formula laid down in Paragraph 57 of the Methodology, by including in full costs included in the draft tariff for water production both the costs of the Merchant for water production and preparation and the costs for purchased water.

60. The Merchant shall calculate **the draft tariff for water supply** according to the following formula:

$$T_{UPS} = I_{P_{UPS}} / Q_{UP} ,$$

where

T_{UPS} - draft tariff for water supply (EUR/m³);

$I_{P_{UPS}}$ - full costs included in the draft tariff for water supply (EUR);

Q_{UP} - the amount of water supplied to customers (m³).

61. The Merchant shall calculate **the draft tariff for water supply** services according to the following formula:

$$T_{UA} = T_{UR} + T_{UPS} , \text{where}$$

where

T_{UA} - draft tariff for the water supply service (EUR/m³);

T_{UR} - draft tariff for water production (EUR/m³);

T_{UPS} - draft tariff for water supply (EUR/m³).

62. The Merchant shall calculate **the draft tariff for wastewater collection** according to the following formula:

$$T_{NS} = I_{P_{NS}} / Q_{NS} ,$$

where

T_{NS} - draft tariff for the wastewater collection service (EUR/m³);

I_{PNS} - full costs to be included in the draft tariff for the wastewater collection service (EUR);

Q_{NS} - the amount of wastewater collected from customers (m³).

63. The Merchant which performs the collection and treatment of wastewater, shall calculate **the draft tariff for wastewater treatment** according to the following formula:

$$T_{NA} = I_{PNA} / Q_{NS}, \text{ where}$$

where

T_{NA} - draft tariff for the wastewater treatment service (EUR/m³);

I_{PNA} - full costs to be included in the draft tariff for the wastewater treatment service (EUR);

Q_{NS} - the amount of wastewater collected from customers (m³).

64. The Merchant which performs the collection of wastewater and drains part of the collected wastewater for treatment in the centralised sewerage engineering network of another merchant, shall calculate the wastewater treatment draft according to the formula specified in Paragraph 62 of the Methodology, including in the full costs of the wastewater treatment service both the costs of the Merchant for treatment of wastewater and the costs of wastewater drained for treatment in the centralised sewerage system of another merchant.

65. The Merchant which performs only treatment of wastewater, shall calculate **the draft tariff for wastewater treatment** according to the following formula:

$$T_{NA} = I_{PNA} / Q_{NA},$$

where

T_{NA} - draft tariff for the wastewater treatment service (EUR/m³);

I_{PNA} - full costs to be included in the draft tariff for the wastewater treatment service (EUR);

Q_{NA} - the amount of wastewater treated in wastewater treatment facilities of the Merchant (m³).

66. The Merchant shall calculate the draft tariff for sewerage services according to the following formula:

$$T_{KP} = T_{NS} + T_{NA},$$

where

T_{KP} - draft tariff for the sewerage service (EUR/m³);

T_{NS} - draft tariff for the wastewater collection service (EUR/m³);

T_{NA} - draft tariff for the wastewater treatment service (EUR/m³).

67. The Merchant which performs the collection of wastewater and drains all collected wastewater for treatment into the centralised sewerage system of another merchant, shall calculate the draft tariff for sewerage services according to the following formula:

$$T_{KP} = T_{NS} + (I_{AT} / Q_{NS}),$$

where

T_{KP} - draft tariff for the sewerage services (EUR/m³);

T_{NS} - draft tariff for the wastewater collection service (EUR/m³);

I_{AT} - the costs for wastewater drained for treatment, if the Merchant drains collected wastewater in the centralised sewerage system of other merchant (EUR);

Q_{NS} - the amount of wastewater collected from customers (m^3).

6. Accounting of Costs and Revenue

68. In order to calculate the tariff, the Merchant shall use the accounting of costs and revenue conforming to the provisions laid down in the Law On Regulators of Public Utilities, namely the accounting of the Merchant shall include separate accounts in respect of each type of water management service. The accounting of costs shall be separated from the total accounting by the Merchant by using accounts, sub-accounts or other indications ensured by using the accounting program and the internal accounting system of the Merchant.

69. The Merchant shall arrange the accounting in a way for the Regulator to able to keep track of all economic transactions related to the water management services from their beginning until end.

70. The Merchant shall separate the following revenue accounts in the accounting records:

70.1. revenue from regulated water supply services;

70.1. revenue from regulated sewerage services;

70.3. revenue from other services (the Merchant shall divide in more detailed way as necessary).

71. If the Merchant provides only one type of water management service (water production, water supply, wastewater collection, wastewater treatment services) to a group of customers, the Merchant shall separately record the revenue for the provision of such service using account, sub-account or indications.

72. If the Merchant provides water management services to other provider of water management services and has agreed on the price for water management services, then the Merchant shall separately record the revenue for the provision of such services using account, sub-account or indications.

73. If the Merchant provides water management services to a group of customers for a different tariff, then the Merchant shall separately record the revenue for the provision of such services using account, sub-account or indications.

74. The Merchant shall ensure a separate recording of costs in the accounting system for the following services:

74.1. water production service;

74.2. water supply service;

74.3. wastewater collection service;

74.4. wastewater treatment service.

75. The Merchant shall, in determining the amount of administrative costs to be indirectly distributed and attributable to water supply and sewerage services, take into account the proportion of revenue from water supply and sewerage services in total revenue of the Merchant from the provision of services in the previous reporting year, or the Merchant's approved method for accounting, distribution and attribution of costs by cost accounting centres. If the Merchant also provides heating services, then, in calculating revenue from the provision of heating services and the total revenue of the Merchant of the previous reporting year from the provision of services, the revenue shall be reduced by the costs for the purchase of fuel and heat energy purchased for resale.

76. The costs which at the time of recording thereof cannot be directly attributed to a specific water management service (except administrative costs which are attributed in accordance with Paragraph 75 of the Methodology), shall be distributed by using cost attribution method which is indicated in the accounting policy or other internal document of the Merchant.

77. The Merchant shall include in its accounting policies information on the accounts, sub-accounts and other indications of costs which are ensured by using the accounting program and the internal accounting system of the Merchant, and which form the tariff for water management services in accordance with Annex 5 to the Methodology.

78. If the revenue of the Merchant from the provision of water management services constitutes more than 95% of the total revenue of the Merchant from provision of services, the Merchant need not carry out separation of costs between provision of water management services and other services. In such case the Merchant shall reduce the costs attributable to the draft tariff by revenue from the provision of other services multiplied by a coefficient which is not less than 0.93.

7. Closing Provisions

79. The draft tariffs which the Merchant has submitted to the Regulator before the day of coming into force of Decision No. 1/2 of the Board of the Public Utilities Commission of 14 January 2016, Methodology for the Calculation of Tariffs for the Water Management Services, and evaluation of which has not been completed, shall be evaluated in accordance with this Methodology.

80. The Merchant shall supplement the accounting policy or another internal document in accordance with the requirements of the Methodology until 1 April 2016.

80.1 The Regulator shall determine, by 30 December 2016, the rate of return of capital which must be applied by the Merchant in developing a draft tariff the date of coming into effect of which is planned in 2017.

[27 October 2016]

80.2 Until 2019, for determination of the risk-free rate r_f and the rate of return of the borrowed capital r_d the statistical data published by the European Central Bank regarding the period starting from 1 January 2014 shall be used.

[24 November 2016]

81. Decision No. 8/1 of the Public Utilities Commission of 12 May 2010, Methodology for the Calculation of Tariffs for the Water Management Services (*Latvijas Vēstnesis*, 2010, No. 76; 2011, No. 76; 2012, No. 56, 2013, No. 192, 2013, No. 230), is repealed.

82. This Methodology shall enter into effect on the day following its publication in the official gazette *Latvijas Vēstnesis*.

Acting Chair, Board Member of the Public Utilities Commission A. Anišs

Annex 1

Decision No. 1/2 of the Public Utilities Commission
14 January 2016

[22 February 2018]

Name of the merchant _____

Unified registration number _____

Water and wastewater balance

No. 1	Information regarding water amounts in the centralised water supply system 2	actual amount of the reporting year, m ³ 3	amount foreseen in the draft tariff, m ³ 4
1.	Water taken from the natural water sources (water abstracted by the Merchant)		
2.	Amount of water for technological needs		
3.	Prepared water purchased from other providers of water management services which is supplied into the centralised water supply engineering network		
4.	Total water supplied into the centralised water supply engineering network (1.-2.+3.), including:		
4.1.	water supplied to customers		
4.2.	water losses in the centralised water supply engineering networks (4.-4.1.)		
No. 1	Information regarding wastewater amounts in the centralised sewerage system 2	actual amount of the reporting year, m ³ 3	amount foreseen in the draft tariff, m ³ 4
5.	Total wastewater drained into the centralised sewerage		

	engineering network which is drained for treatment (6+7), including:		
5.1.	wastewater collected from customers		
5.2.	other wastewater drained into the centralised sewerage engineering network (5-5.1)		
6.	Wastewater treated in the wastewater treatment facilities of the Merchant		
7.	Wastewater transferred for treatment to other providers of sewerage services		

Date ____ . ____ . ____ .

Person entitled to represent the Merchant

_____ signature and full name

Annex 2

Decision No. 1/2 of the Public Utilities Commission
14 January 2016

[22 February 2018]

Name of the merchant _____

Unified registration number _____

Calculation of the Draft Tariff for the Water Management Services

No.	Items	water production	water supply	wastewater collection	wastewater treatment
1	2	3	4	5	6
1.	Depreciation of fixed assets and the book value of written-off intangible investments				
1.1.	Depreciation of fixed assets				
1.1.1.	buildings, structures				
1.1.2.	equipment, machinery				
1.1.3.	other				
1.2.	Book value of written-off intangible investments				
	Operating costs EUR (2.+3.+4.)				

2.	Staff costs				
2.1.	Work remuneration				
2.2.	Social insurance contributions				

3.	Costs of maintenance and repairs of fixed assets				
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4.	Other costs of economic activity				
4.1.	Costs of the procured water, if the Merchant procures water from another merchant for the provision of services		x	x	x

4.2.	Costs of wastewater drained for treatment, if the Merchant drains the collected wastewater into the centralised collecting system of another merchant	x	x	x	
4.3.	Other costs of administration not included elsewhere				
4.4.	Costs of materials				
4.5.	Costs of electricity, heating fuel, heat energy, gas				
4.6.	Security guard costs				
4.7.	Vehicle maintenance costs				
4.8.	Immovable property rent costs				
4.9.	Insurance costs				
4.10.	Costs of communication services				
4.11.	Costs for purchase of office supplies				
4.12.	Staff training costs				
4.13.	Costs of legal services				
4.14.	Costs of environmental status control				
4.15.	Costs of business trips				
4.16.	Other costs				
4.17.	Fee payments				

5.	Costs of water losses	x		x	x
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6.	Tax payments				
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7.	Credit interest payments and repayment of the principal sum				
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8.	Revenue in accordance with Paragraphs 13 and 78 of the Methodology				
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	Total costs EUR (1.+2.+3.+4.+5.+6.+7.-8.)				
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9.	Profitability of turnover				
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9.1	Unforeseen costs in accordance with Paragraph 17.1 of the Methodology		x	x	
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	Full costs (with profitability), EUR				
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10.	Total amount of water supplied into the centralised water supply engineering network, m ³		x	x	x
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11.	Amount of water supplied to customers, m ³	x		x	x
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12.	Amount of wastewater collected				
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12.	from customers, m ³	x	x		
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	Tariff for water production	Tariff for water supply	Tariff for wastewater collection	Tariff for wastewater treatment
EUR/m ³				
	Tariff for water supply services		Tariff for sewerage services	
EUR/m ³				
	Tariff for water management services			
EUR/m ³				

Date ____.

Person entitled to represent the Merchant

_____ signature and full name

Annex 3

Decision No. 1/2 of the Public Utilities Commission
14 January 2016

[22 February 2018]

Name of the merchant _____

Unified registration number _____

Calculation of Capital Return

No.	Items	water production	water supply	wastewater collection	wastewater treatment
1	2	3	4	5	6
1.	Intangible investments				
1.1.	Concessions, patents, licences, trademarks and similar rights				
1.2.	Costs for establishment of intangible investments				

2.	Fixed assets				
2.1.	Land				
2.2.	Buildings and structures				
2.3.	Equipment and machinery				
2.4.	Other fixed assets and inventory				
2.5.	Establishment of fixed assets and costs of unfinished construction objects				
2.6.	Advance payments for fixed assets				
2.7.	Fixed assets not used for the provision of the public utility service				

3.	Accumulated supplies other than accumulated supplies for sale				
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4.	The regulatory asset base (RAB) (1.+2.- 2.7.+3.)				
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5.	Average weighted cost of return of capital (wacc)				
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6.	Return of capital $P=RAB*wacc$ (4.*5.)				
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Date ____.

Person entitled to represent the Merchant

_____ signature and full name

Annex 4

Decision No. 1/2 of the Public Utilities Commission

14 January 2016

Name of the merchant _____

Unified registration number _____

Calculation of the Draft Tariff for the Water Management Services if Return of Capital is Included in Costs

Items	water production	water supply	wastewater collection	wastewater treatment
Capital costs EUR (1.+2.)				
1.	Depreciation of fixed assets and the book value of written-off intangible investments			
1.1.	Depreciation of fixed assets			
1.1.1.	buildings, structures			
1.1.2.	equipment, machinery			
1.1.3.	other			
1.2.	Book value of written-off intangible investments			
Operating costs EUR (3.+4.+5.)				
2.	Return of capital			
3.	Staff costs			
3.1.	Work remuneration			
3.2.	Social insurance costs			
4.	Costs for maintenance of fixed assets and repairs			
5.	Other costs of economic activity			
	Costs of the procured water, if the			

5.1.	Merchant procures water from another merchant for the provision of services		x	x	x
5.2.	Costs of wastewater drained for treatment, if the Merchant drains the collected wastewater into the centralised collecting system of another merchant	x	x	x	
5.3.	Other costs of administration not included elsewhere				
5.4.	Costs of materials				
5.5.	Costs of electricity, heating fuel, heat energy, gas				
5.6.	Security guard costs				
5.7.	Vehicle maintenance costs				
5.8.	Immovable property rent costs				
5.9.	Insurance costs				
5.10.	Costs of communication services				
5.11.	Costs for purchase of office supplies				
5.12.	Staff training costs				
5.13.	Legal services costs				
5.14.	Costs of environmental status control				
5.15.	Costs of business trips				
5.16.	Other costs				
5.17.	Fee payments				
6.	Costs of water losses	x		x	x
7.	Tax payments				
8.	Income in accordance with Paragraphs 13 and 78 of the Methodology				
Full costs in total EUR (1.+2.+3.+4.+5.+6.+7.-8.)					
9.	Total amount of water supplied into the centralised water supply engineering network, m ³		x	x	x
10.	Amount of water supplied to customers, m ³	x		x	x
11.	Amount of wastewater collected from customers, m ³	x	x		

	Tariff for water production	Tariff for water supply	Tariff for wastewater collection	Tariff for wastewater treatment *)
EUR/m ³				
	Tariff for water supply services		Tariff for sewerage services	
EUR/m ³				

Tariff for water management services

EUR/m³

Date _____

Person entitled to represent the Merchant _____

signature and full name

Acting Chair, Board Member of the Public Utilities Commission A. Aniņš

Annex 5

Decision No. 1/2 of the Public Utilities Commission

14 January 2016

Accounts, Sub-accounts and Indications Used in Calculation of the Draft Tariff for Water Management Services

No.	Cost items forming the tariff*	Account, sub-account No. or other indications ensured by using the accounting program and the internal accounting system of the Merchant			
		water production services	water supply services	wastewater collection services	wastewater treatment services
1.	Depreciation of fixed assets and the book value of written-off intangible investments				
2.	Staff costs				
3.	Costs for maintenance of fixed assets and repairs				
4.	Other costs of economic activity				
4.1.	Costs of the procured water, if the Merchant procures water from another merchant for the provision of services				
4.2.	Costs of wastewater drained for treatment, if the Merchant drains the collected wastewater into the centralised collecting system of another merchant				
4.3.	Other costs of administration not included elsewhere				
4.4.	Costs of materials				
4.5.	Costs of electricity, heating fuel, heat energy, gas				
4.6.	Security guard costs				
4.7.	Vehicle maintenance costs				
4.8.	Immovable property rent costs				
4.9.	Insurance costs				
4.10.	Communication services costs				
4.11.	Costs for purchase of office supplies				
4.12.	Staff training costs				
4.13.	Legal services costs				
4.14.	Costs of environmental status control				
4.15.	Costs of business trips				
4.16.	Other costs				
4.17.	Fee payments				
5.	Tax payments				

6.	Credit interest payments and repayment of the principal sum				
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* several accounts of accounting costs may refer to each costs item. One account may be distributed to several cost items indicating cost drivers and coefficients.

Acting Chair, Board Member of the Public Utilities Commission A. Aniš

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