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National Emissions Allowance
Allocation Plan
2008–2012

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Introduction

To facilitate the prevention of global climate change, implementing the requirements of European Union legislation, Latvia has to develop a plan for the allocation of allowances (hereinafter – the Plan) for each period of the European Union Emission Trading Scheme (hereinafter – EU ETS). The creation of the Plan is laid down in the “Law on Pollution”, and the Plan deals with issues relating to EU ETS participants in Latvia, the principles of allocating allowances and anticipated allowance allocations, regulations related to allocation, policy planning documents, and the potential to reduce the emission of greenhouse gases (hereinafter – GHG). The first EU ETS period ran from 1 January 2005 until 31 December 2007, while the second period -- for which this document has been prepared -- runs from 1 January 2008 until 31 December 2012.

Latvia's Plan¹ was presented to the European Commission on 16 August 2006. On 29 November 2006 the Commission adopted a Decision² on the Plan, fixing the annual emissions allocation³ at 3.283 million. Taking into account Article 3 of the Commission's Decision on permitted amendments to the Plan, on 28 December 2006 the Cabinet of Ministers approved amendments⁴ to the Plan fixing the annual emissions allocation at 6.25 million. The amendments to the Plan were submitted to the Commission on 29 December 2006. The Commission assessed the amendments to the Plan and on 13 July 2007 adopted a Decision⁵ on the amendments to the Plan submitted by Latvia, whereby the annual emissions allocation was increased by 0.145 million. As a result Latvia's total permitted annual emissions allocation for the installations mentioned in the Plan was fixed at 3.428 million.

Taking into account the above mentioned Commission's decisions Latvia developed amendments to the Plan. On 17 December 2007, the Cabinet of Ministers approved the amendments to the Plan⁶ fixing the total annual allocation at 3.428 million allowances. The above-mentioned amendments to the Plan were notified in the European Commission that carried out check-up of the presented amendments. Latvia was informed about the results of the check-up by a Letter of the Directorate General of Environment of the Commission No ENV/C2/IB/bm D (2008)7156 of 30 May 2008 (hereinafter – Letter). The letter

¹ Cabinet Order No 608 of 9 August 2006 on the 2008–2012 National Emissions Allowance Allocation Plan, null and void by Cabinet Order No 1010 of 28 December 2006

² Commission Decision No C(2006)5612 of 29 November 2006 concerning the national allocation plan for the allocation of greenhouse gas emission allowances notified by Latvia in accordance with Directive 2003/87/EC of the European Parliament and of the Council.

³ Emissions allocation – allowance to emit one tonne of carbon dioxide (CO₂) within a certain period of time.

⁴ Cabinet Order No 1010 of 28 December 2006 on the 2008–2012 National Emissions Allowance Allocation Plan, null and void by Cabinet Order No 809 of 17 December 2007

⁵ Commission Decision No C(2007)3409 of 13 July 2007 concerning amendments to the national allocation plan for the allocation of greenhouse gas emission allowances notified by Latvia in accordance with Article 3(3) of Commission Decision C/2006/5612 final of 29 November 2006 concerning the national allocation plan for the allocation of greenhouse gas emission allowances notified by Latvia in accordance with Directive 2003/87/EC of the European Parliament and of the Council.

⁶ Cabinet Order No 809 of 17 December 2007 on the 2008–2012 National Emissions Allowance Allocation Plan

points out that Latvia has carried out all the necessary amendments of the Plan. Simultaneously, the Letter states that in regard to allowances allocation in the level of installations Latvia must reduce the annual allowances allocation by 0.029633 million, as in line with the Article 3 of the Commission's decision of 29 November 2006⁷, the permitted total amount of emissions allowances must be allocated "to the installations listed in this Plan and new entrants of ETS". It means that in the case if the number of installations included in the EU ETS is reduced (scope of EU ETS is changed), the total allowances allocation must be accordingly corrected. As a result of which the total permitted annual allowances allocation for Latvia is 3.398 million. In addition, the letter points out that the total amount of allowances allocated for Latvia excludes allocation for three EU ETS volunteers (opt-in installations) which become participants only from 1 January 2008; in regard to these installations, Latvia may apply for additional emissions allocations by presenting a special request to the European Commission.

Latvia has started legal proceedings on revoking the Commission's Decision of 13 July 2007. Taking into account the decision of the Cabinet of Ministers from 31 July 2007, on 26 September 2007 Latvia brought proceedings before the Court of First Instance of the European Communities with a view to revoking this Decision. Statement of the court on Latvia's proceedings was published in the EU Official Journal on 10 November 2007 (case No T-369/07). The court has dismissed Latvia's proceeding to hear the case in a hastened process; as a result, the legal proceedings are expected to last for at least 2 years. At present, the written part of the legal proceedings during which a written exchange of opinions (comments) between Latvia and the European Commission took place has finished. The Court can declare the Decision invalid or dismiss the claim of Latvia. If the Decision is declared invalid the Commission will be obliged to reassess the emissions allocation plan submitted by Latvia and to adopt a new decision. However, pursuant to Article 242 of the EC Treaty, the fact that proceedings have been brought does not mean that the validity and applicability of the Commission's Decision is suspended. Hence, to provide for the continuity of the EU ETS, Latvia must make amendments to the Plan to ensure that emissions allocation allowances correspond to the total emissions allowance amounts laid down in the Commission's Decision of 13 July 2007 and in the Letter of the Directorate General of Environment of the Commission of 30 May 2008, that is an annual emissions allowance of 3.398 million.

The content of the Plan has been drawn up in accordance with the Commission's communication of 7 January 2004 *COM(2003) 830 final*⁸ and the

⁷ Formulation of the first part of the article 3 of the Commission's Decision No C(2006)5612 of 29 November 2006: "The annual average total quantity of allowances of 3.283303 million tonnes to be allocated by Latvia according to its national allocation plan to installations listed therein and to new entrants shall not be exceeded."

⁸ Communication from the Commission *COM(2003) 830 final* of 7 January 2004 on guidance to assist Member States in the implementation of the criteria listed in Annex III to Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, and on the circumstances under which force majeure is demonstrated.

Commission's communication of 22 December 2005 *COM(2005) 703 final*⁹. The Plan has also taken into account the Commission's notification to the Council and the Parliament of 29 November 2006 *COM(2006) 725 final*¹⁰ and the Commission's Decisions (see footnotes No 2 and 5) and the Letter on Latvia's Plan and its amendments.

The Plan has been compiled on the basis of Cabinet Order No 699 of 12 November 2007 on Conception of options for the allocation of emissions allowances during the period 2008–2012. The conception of options was aimed at providing for the adoption of a considered, economically sound decision on the principles on which amendments to the Plan are to be based, by presenting a variety of possible solutions for the allocation of emissions allowances.

1. Determination of the total quantity of allowances

1.1. Latvia's international obligations

In 1995, the Parliament of the Republic of Latvia (*the Saeima*) ratified the United Nations Framework Convention on Climate Change, and, in 2002, the Kyoto Protocol to this Convention, so undertaking to meet a series of obligations. In line with the Kyoto Protocol, Latvia, either individually or jointly with other countries, must reduce GHG emissions by 8% compared to 1990 levels over the period 2008–2012.

In 1990, Latvia emitted 25 909 million tonnes of CO₂ equivalents¹¹, which means that, in order to meet its Kyoto Protocol obligations, Latvia must not emit more than 23 836 million tonnes of CO₂ equivalents annually over the period 2008-2012.

In 2005, the amount of GHG emitted in Latvia totalled 10 880 million tonnes CO₂¹². Installations involved in the first EU ETS period emitted 2 854 million tonnes of CO₂ in 2005¹³ (energy supply installations: 1 922 million tonnes of CO₂; other combustion installations: 0.179 million tonnes of CO₂; industrial installations – 0.753 million tonnes of CO₂) which together make up 26% of the total amount of the country's GHG emissions.

⁹Communication from the Commission *COM(2005) 703 final* of 22 December 2005 on further guidance on allocation plans for the 2008 to 2012 trading period of the EU Emission Trading Scheme.

¹⁰ Communication from the Commission *COM(2006) 725 final* of 29 November 2006 to the Council and to the European Parliament on the assessment of national allocation plans for the allocation of greenhouse gas emission allowances in the second period of the EU Emissions Trading Scheme.

¹¹ Source: Latvian Environmental, Geological and Meteorological Agency. 2007 Report on emissions and collection of anthropogenic greenhouse gases in Latvia (http://cdr.eionet.europa.eu/lv/un/colqlvn8g/envrh3zig/NIR_LATVIA_15.04.07.pdf).

¹² Source: Latvian Environmental, Geological and Meteorological Agency. 2007 Report on emissions and collection of anthropogenic greenhouse gases in Latvia (http://cdr.eionet.europa.eu/lv/un/colqlvn8g/envrh3zig/NIR_LATVIA_15.04.07.pdf).

¹³ Source: Latvian Environmental, Geological and Meteorological Agency: EU ETS 2005 activity report for Latvia (http://www.meteo.lv/upload_file/SEG_REGISTRS/LV_verificesana.pdf).

The GHG emissions forecasts calculated in 2005¹⁴ indicate that Latvia will be able to meet its Kyoto Protocol emissions reduction obligations – the amount of GHG emissions forecast for Latvia in 2010 could even be 40% lower than those in 1990 (see Diagram 1), provided that:

- policy documents and laws are approved in the climate change sector (particularly with regard to promoting the use of renewable energy resources, promoting the manufacture and use of biofuels, the effective and rational utilisation of energy resources, the organisation of manure storages, the development of a modern solid waste management system, the afforestation of unused agricultural land)

- no new energy-intensive industrial sectors are developed that could significantly increase forecast GHG emissions.

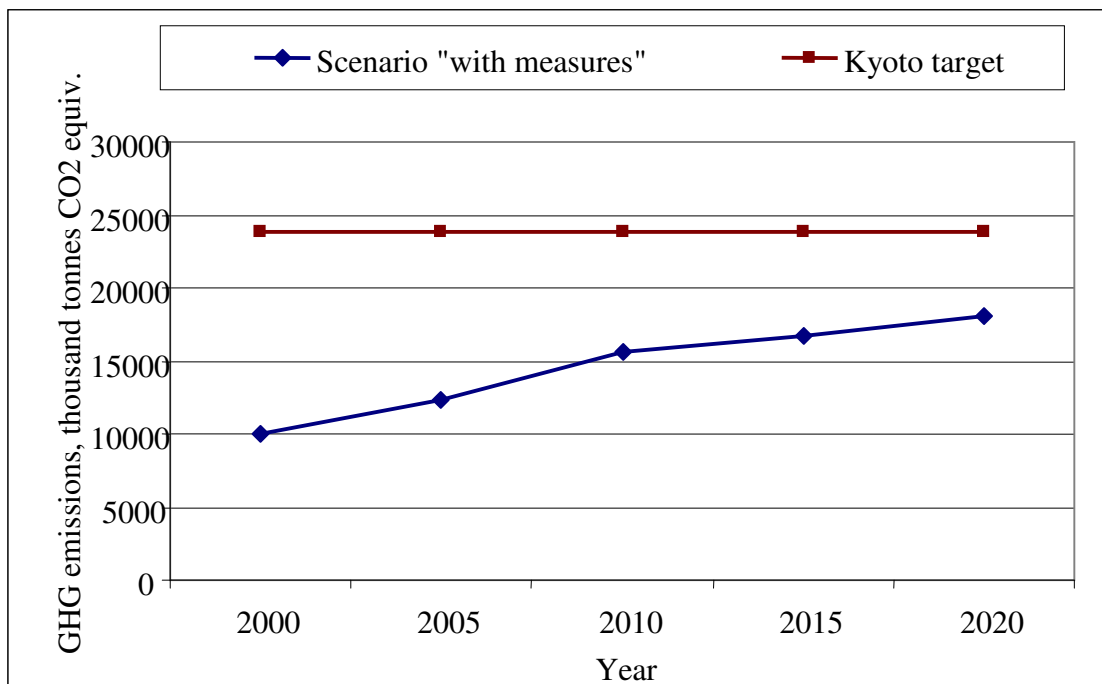


Diagram 1. Total annual GHG emissions 2000-2020, thousand tonnes CO₂ equiv.

Source: Climate change reduction programme for 2005-2010, updated with recent information from enterprises and state authorities.

1.2. Emission allowance trading scheme participants

The Law on Pollution lays down that individual enterprises and commercial companies are obliged to participate in the emissions trading scheme if they carry out any of the following polluting activities:

1. energy production:

- 1.1. combustion installations, with a nominal rated thermal input exceeding 20 megawatts, except combustion installations for hazardous and solid waste;

¹⁴ Source: Climate change reduction programme for 2005-2010, 2005.

- 1.2. installations for purifying and refining mineral oils;
 - 1.3. coke ovens.
2. ferrous metal manufacture and processing:
 - 2.1. installations for metal ore, also sulphide ore, blasting and smelting;
 - 2.2. installations for the initial or repeated smelting of cast iron or steel, including continuous casting with a production capacity exceeding 2.5 tonnes per hour.
3. manufacture of mineral products:
 - 3.1. rotary kiln installations for producing clinker cement with a production capacity exceeding 500 tonnes per day, or rotary kiln installations for producing lime with a production capacity exceeding 50 tonnes per day, or other lime-production kilns with a production capacity exceeding 50 tonnes per day;
 - 3.2. installations for glass and fibre-glass production with a melting capacity exceeding 20 tonnes per day;
 - 3.3. installations for producing fired clay products, roof tiles, bricks, fire-resistant bricks, tiles, kilns for producing tiles or porcelain with a finished-product capacity exceeding 75 tonnes per day or a firing kiln capacity exceeding four cubic metres where more than 300kg of production can be fitted into each cubic metre of the firing kiln.
 4. in other sectors:
 - 4.1. installations for manufacturing cellulose from wood pulp or other fibrous materials;
 - 4.2. installations for manufacturing paper or cardboard with a production capacity exceeding 20 tonnes per day.

Pursuant to the laws and regulations of the Republic of Latvia, individual Latvian enterprises or commercial companies which carry out the polluting activities listed in Annex 2 to the “Law on Pollution”, but at lower volumes than the limits listed in the Annex, may participate voluntarily in the EU ETS. See Section 2.4 for more information about voluntary involvement in the EU ETS.

The Plan only takes into account CO₂ emissions from the types of installations mentioned above.

1.3. Assumptions made to quantify total allowances and calculation methodology

On 29 November 2006 the Commission adopted Decision No C(2006)5612¹⁵ fixing Latvia's annual total emissions allocation at 3.283303 million. This amount was calculated using the Commission's methodology based on the actual emissions from EU ETS installations in 2005 and taking into account the growth in gross domestic product (GDP), reductions in carbon intensities in the

¹⁵ Commission Decision No C(2006)5612 of 29 November 2006 concerning the national allocation plan for the allocation of greenhouse gas emission allowances notified by Latvia in accordance with Directive 2003/87/EC of the European Parliament and of the Council.

economy and additional emissions from installations included in the updated definition of combustion installations¹⁶.

Further to this Decision, on 13 July 2007 the Commission adopted Decision No C(2007) 3409¹⁷, which increased the annual emissions allocation by 0.144813 million. Simultaneously, the Letter states that in regard to emission allowance allocation in the level of installations Latvia must reduce the annual emission allowances by 0.029633 million, as in line with the article 3 of the Commission's decision of 29 November 2006, the permitted total amount of emission allowances must be allocated "to the installations listed in this Plan and to new entrants". It means that in the case if the number of installations included in the EU ETS is reduced the total emission allowances must be accordingly corrected. As a result of which Latvia's total permitted annual emissions allocation for 2008–2012 is 3.398483 million.

Latvia does not support the Commission's Decision of 13 July 2007 and on 26 September of 2007 brought proceedings before the Court of First Instance of the European Communities with a view to revoking this Decision. However, pursuant to Article 242 of the EC Treaty, the fact that proceedings have been brought does not mean that the validity and applicability of the Commission's Decisions is suspended. Hence, the emissions allowance allocation set out in this plan is based on the total emissions allowances laid down in the Commission's Decision of 13 July 2007 and the letter of the Directorate General of the Commission of 30 May 2008, that is 3.398483 million emissions allowances annually.

The total annual emissions allowance for Latvia has been calculated as follows:

Emissions allowances = (2.854492 x 1.5 x 0.8006)¹⁸ – 0.029633¹⁹ = 3.398434 million

where:

2.854492	- verified emissions in Latvia during 2005,
1.5	- growth in GDP in 2005–2010 ²⁰ ,
0.8006	- carbon intensity reduction factor in 2005–2010 ²¹ ,
0.029633	- <u>reduction of allowances allocation fixed by the Commission</u>

¹⁶ Paragraph 36 of the Communication from the Commission *COM(2005) 703 final* of 22 December 2005 on further guidance on allocation plans for the 2008 to 2012 trading period of the EU Emission Trading Scheme. Over the period 2005-2007 Latvia applied the so-called 'broad' definition of combustion installations, therefore no installations were added to the EU ETS during the period 2008-2012 as a result of updating the definition of combustion installations.

¹⁷ Commission Decision No C(2007)3409 of 13 July 2007 concerning amendments to the national allocation plan for the allocation of greenhouse gas emission allowances notified by Latvia in accordance with Article 3(3) of Commission Decision C/2006/5612 final of 29 November 2006 concerning the national allocation plan for the allocation of greenhouse gas emission allowances notified by Latvia in accordance with Directive 2003/87/EC of the European Parliament and of the Council.

¹⁸ Recital (9) of the preamble to Commission Decision No C(2007)3409

¹⁹ Pursuant to the letter of the Directorate General of Environment of the Commission No ENV/C2/IB/bm D(2008)7156 of 30 May 2008

²⁰ Recital (8) of the preamble to Commission Decision No C(2007)3409

²¹ Recital (8) of the preamble to Commission Decision No C(2007)3409

Hence, over the five-year period 2008–2012 Latvia plans to divide a total of $3.398483 \times 5 = \underline{16.992415}$ million emissions allowances among existing and new installations.

Emissions allowances will be granted free of charge to both compulsory and voluntary EU ETS participants.

Pursuant to Section 32.³(10) of the “Law on Pollution” the Cabinet is responsible for adopting decisions regarding activities with surplus allowances (the difference between the allowances provided for in the allocation plan for new installations and the allowances allocated to such installations).

1.4. Measures relating to installations not involved in the polluting activities mentioned in Annex 2 to the “Law on Pollution”

To facilitate climate change reduction and develop the introduction of clean technologies and more extensive participation in EU ETS, provisions have been incorporated into the Law on Natural Resources Tax, to make the tax for CO₂ emissions applicable to stationary installations which perform the polluting activities listed in Annex 2 to the “Law on Pollution” (see Section 1.2), and also those polluting activities whose production capacity or volume of finished products does not exceed the indicators mentioned in Annex 2 to the “Law on Pollution”. At the same time, the Law on Natural Resources Tax prescribes that the tax for CO₂ emissions is not applied to installations whose operator has been issued a GHG emissions permit, or to emissions arising from the use of renewable energy resources and peat. The tax rate per tonne of CO₂ emissions has been set at LVL 0.10 until 30 June 2008, and at LVL 0.30 after 1 July 2008.

1.5. Use of Kyoto Protocol flexibility mechanisms

As a Member of the Kyoto Protocol to the UN Framework Convention, Latvia has the option of participating in the flexibility mechanisms provided for by the Convention: Joint Implementation Projects (JIP), Clean Development Mechanisms (CDM), and International Emissions Trading (IET). Taking into account the forecasts for GHG emissions for 2008-2012 (see Diagram 1), it is not necessary for Latvia to employ these mechanisms to achieve the reduction in GHG emissions specified by the Kyoto Protocol, which is why the country is not currently planning to buy "emissions rights" from other countries. At the same time, laws and regulations do not prevent Latvian entrepreneurs from participation in JIP and TAM outside Latvia.

As a result of the great interest of investors in implementing JIP in Latvia, the Latvian government has decided to participate in JIP²² by attracting investment to GHG emissions reduction projects. An institutional system for

²² Cabinet Regulation No 510 of 7 July 2008 on Implementation of project mechanisms under the Kyoto Protocol to the United Nations Framework Convention on Climate Change and activities related to allocation and utilisation of emission reduction units, certified emission reduction units, removal units and assigned amount units.

implementing project mechanisms in Latvia has been created. Currently, one Joint Implementation Project is being realised in Latvia – the Liepaja solid waste management project²³. Since this project leads to neither a direct nor indirect emissions reduction or restriction vis-à-vis installations included in the EU ETS, the plan makes no provision for the implementation of this project for a separate emissions allowance reserve in accordance with Article 3(1) of Commission Decision of 13 November 2006 on avoiding double counting of greenhouse gas emission reductions under the Community emissions trading scheme for project activities under the Kyoto Protocol pursuant to Directive 2003/87/EC of the European Parliament and of the Council. There are no plans between 2008 and 2012 to allocate to Latvia emission reduction units to reduce or restrict emissions of the type created for joint projects for installations included in the EU ETS, and at the time of the plan's submission the Commission had not received any letters of endorsement for any such project. This is why the Plan does not include a separate emissions allowance reserve pursuant to Article 3(2) of Commission Decision 2006/780/EC of 13 November 2006.

Taking into account the forecasts for GHG emissions for 2008-2012, Latvia has great potential for participating in IET as a seller of "emissions rights". In the spring of 2006, the Latvian Government decided to participate in IET²⁴. Corresponding legislation is currently being drafted²⁵ enabling the country to take full advantage of IET to achieve its climate policy objectives.

Pursuant to Section 32.¹(3)(13) of the Law on Pollution, the maximum number of emissions reduction units and certified emissions reduction units an operator may use within the EU ETS is 10% of the quantity of allowances allocated to each installation. This percentage has been established on the principle that use of Kyoto Protocol project mechanisms can supplement the reduction in emissions achieved in a country, and also in view of the principle that in Latvia reducing emissions in EU ETS installations is seen as a priority. The limit does however provide enterprises with the option of participating in Kyoto Protocol project activities in other countries. The procedure for exchanging ERU and CERU is laid down in Cabinet Regulation No 510 of 7 July 2008 on "Implementation of project mechanisms under the Kyoto Protocol" and activities related to the allocation and utilisation of emissions reduction units, certified emissions reduction units, removal units and assigned amount units.

²³ More information on the project can be found in the 2005 Climate change reduction programme for 2005-2010.

²⁴ Conception for Latvia's participation in international emissions trading (approved under Cabinet Order No 249 of 12 April 2006) and its amendments.

²⁵ The Act "On the Participation of the Republic of Latvia in the flexibility mechanisms of the Kyoto Protocol" (Published: the official gazette *Latvijas Vēstnesis* no 192, 29 November 2007) and Cabinet Regulations under the Act .

1.6. Legislative acts and policy planning documents taken into account in determining emissions allowances

When allowances were being determined, reference was made to the following laws and regulations and main energy and industrial sector policy documents:

1.6.1. Laws

1) The Law “On Pollution”

One of the objectives of the “Law on Pollution” is to reduce greenhouse gas emissions, taking into account cost-effectiveness, and to secure Latvia's participation in the EU ETS. The fundamental conditions of the EU ETS have been incorporated into the Law: the rights and responsibilities of state authorities and operators within the procedures for issuing GHG emissions permits, the preparation of annual reports, procedures for the preparation and approval of a national allocation plan, the principles of allowance allocation, conditions for the creation and maintenance of a register of greenhouse gas emissions units, operations with allowances, and conditions for the creation of an installations pool. The Law lists those polluting activities for which a GHG emissions permit is necessary, and which are thus obliged to participate in the EU Emission Trading Scheme, and also provides for voluntary participation in the scheme. The Law prescribes the procedure for community involvement in decision-making on allowance distribution and allocation and for issuing of GHG emissions permits.

Detailed implementation conditions for the EU ETS are regulated by Cabinet Regulations subordinate to the “Law on Pollution”:

- Cabinet Regulation No 400 of 22 April 2004 “On procedures for requesting and granting greenhouse gas emissions permits”;
- Cabinet Regulation No 661 of 3 August 2004 “On procedures for running activities under emissions allowances and for establishing installation pooling”;
- Cabinet Regulation No 778 of 7 September 2004 “On procedures for performing greenhouse gas emission monitoring, and for reviewing and approving annual reports on greenhouse gas emissions”.

2) The Energy Law

One of the objectives of the Energy Law is to ensure a continuous, safe, high-quality supply of energy to energy users, varying the types of fuel utilised, increasing the security of supply and improving the distribution and delivery of energy.

Pursuant to Section 51 of the Energy Law municipalities determine the development of district heating and coordinate this with the Public Utilities

Regulation Commission. They do so within the framework of administrative territory development programmes, taking into account regulations on environmental protection and the preservation of cultural monuments and the options for utilising local energy resources, and by assessing security and long-term marginal costs.

3) The Electrical Energy Market Law

One of the aims of the Electrical Energy Market Law is the promotion of electrical energy production utilising renewable energy resources. The Law also prescribes measures for promoting this type of electrical energy production.

The Electrical Energy Market Law provides for electrical energy producers to obtain the right to sell, under obligatory procurement provisions, electrical energy produced in a cogeneration process, as well as electrical energy produced using renewable energy resources, thus encouraging the utilisation of cogeneration and renewable energy resources in the production of electricity.

4) Law on the Energy Efficiency of Buildings

The aim of this Law is to facilitate the improvement of buildings' energy-efficiency. The Law will prescribe the legal and organisational basis for the energy certification of buildings, as well as the jurisdiction of state administrative and municipal bodies in the building-energy-efficiency sector.

In terms of the jurisdiction of state administrative bodies, it is prescribed that the Ministry of Economics is responsible for the general supervision and coordination of the building-energy-efficiency sphere. The Ministry of Economics implements the development of a common policy and programme and also ensures that the community is informed about the requirements for the energy-efficiency of buildings and energy-conservation measures.

The Law prescribes that new buildings with a total area exceeding 1000m² must, at the initial design stage, consider as an alternative solution the utilisation of de-centralised energy systems based on renewable resources, cogeneration systems, local heating, cooling systems or heat pumps.

If a building has a central-heating boiler with a nominal capacity above 20kW, or a central-heating system which is more than 15 years old, the efficiency of the boiler will be assessed and suggestions will be made on the replacement of the central-heating boiler or other changes to the central-heating system and alternative solutions to reduce energy usage and the emission of carbon dioxide.

1.6.2. Cabinet Regulations

Cabinet Regulation No 294 of 9 July 2002 “On procedures for registering category A, B and C polluting activities and issuing permits for category A and B polluting activities”.

This Regulation sets out the conditions for applying for and receiving permits, including maximum limits for fuel usage of installations. This condition has been taken into account in calculating the scale of allowances for existing installations and the reserve for new entrants.

1.6.3. Policy planning documents

1) “Common economic strategy” guidelines (approved under Cabinet Order No 568 of 18 August 2004).

These guidelines define the national policy on securing stable, balanced and sustainable development, linking long-term economic aims and priorities (10-30 years) with medium-term (5-10 years) and short-term (1-3 years) aims and measures within a common system.

The common economic strategy document contains an evaluation of the existing economic situation; it defines the strategic objectives of Latvia's economic policy and the indicators to measure their achievement, as well as descriptions of political directions to secure balanced and sustainable growth.

One of the aims projected is the rate of annual GDP growth of 8% in the medium term (up to 2010) and 5% in the long term (up to 2030).

2) Climate change reduction programme 2005-2010 (approved under Cabinet Order No 220 of 6 April 2005).

The aim of the programme is to facilitate the prevention of global climate change by carrying out measures intended to coordinate the reduction of GHG emissions and increase CO₂ sequestration, by participating in the flexibility measures set out in the Kyoto Protocol, attracting investment to GHG emission reduction projects, and supporting other economically justified international cooperation on the reduction of GHG emissions.

The programme sets out the most recent GHG emissions forecasts up to 2020 taken into account in calculating allowance quantities. The programme collates existing and planned policies and measures in those economic sectors which emit GHG or sequester CO₂.

3) Guidelines on energy development 2007–2016 (approved under Cabinet Order No 571 of 1 August 2006).

The guidelines on energy development 2007–2016 consist of a policy planning document which sets out the Latvian government's basic policy

principles, aims and courses of action in the energy sector for the next ten years, and defines the sector's long-term developmental directions.

The document provides for a number of alternatives to reduce reliance on external sources of energy resources. Solid fuel – coal in combination with biomass -- is the most credible alternative for the purposes of reducing the use of natural gas in the production of electrical energy. The construction of a new coal-fired condensation power plant is planned for 2011–2012. The anticipated capacity of the condensation power plant is 400MW_{el}. Additionally, the construction of a new nuclear power plant in Lithuania is anticipated within the guidelines on energy development for 2007–2016.

The document prescribes that, by 2016, Latvia's largest cities (including Riga) must adopt the potential for cogeneration with a total heating load of 300MW_{th} and Latvia's other towns must achieve a total heating load of approximately 100MW_{th}.

It is anticipated that from 2008, as a result of energy-efficiency measures, the use of primary energy resources should decrease by 1% per annum compared to the usage calculated should no energy-efficiency measures be carried out, which is determined using average energy-intensity indicators for the past five years.

All the forecasted data mentioned above and other data forecasts included in the document have been taken into account in preparing the Plan.

4) Guidelines on the utilisation of renewable energy resources 2006-2013 (approved under Cabinet Order No 835 of 31 October 2006).

This long-term policy planning document lays down the Latvian government's fundamental planning principles, objectives and courses of action for the utilisation of renewable energy resources in Latvia.

5) Guidelines on Latvia's industrial development 2004–2013 (approved under Cabinet Order No 120 of 25 February 2004).

The guidelines on Latvia's industrial development is a long-term policy planning document which includes fundamental national principles, objectives and priorities to facilitate competitiveness in the industrial sector.

6) Latvian National Development Plan 2007–2013

The National Development Plan (NDP) is one of the most important medium-term national planning documents. Its aim is to focus the public's attention on the necessity to ensure that activities aimed at achieving the country's developmental objectives and creating the necessary conditions are coordinated and balanced. One of the priority objectives laid down in the NDP is to pay particular attention to the economically sound consumption of energy resources and raw materials in manufacturing enterprises by introducing "cleaner

manufacturing" principles and better available technology, so as to reduce the negative impact of manufacturing processes and manufactured products on the environment and human health.

7) Conception of options for the allocation of emissions allowances during the period 2008–2012 (approved under Cabinet Order No 699 of 12 November 2007).

This conception of options aims to provide for the adoption of a considered, economically sound decision on the principles on which amendments to the 2008–2012 National Emissions Allowance Allocation Plan are to be based. The conception of options proposes six possible scenarios for the allocation of emissions allowances and these are compared and analysed on the basis of their socio-economic impact, their potential to increase the rate of inflation, and their impact on the increasing prices of various goods and services. A number of emissions allocation distribution conditions were applied to the scenarios and these conditions formed the basis for the allocation of emissions allowances at sector level and installation level, as referred to in this Plan.

The Cabinet approved the 6th proposal and laid down corresponding emissions allowance allocation conditions for existing installations and new entrants (see section 2 of the Plan for further details).

2. Allowances at sector and installation levels

2.1. Methodology used in calculations

Allowances at sector and installation level allocated on the basis of the conditions set out in the document Conception of options for the allocation of emissions allowances during the period 2008–2012²⁶:

2.1.1. Division of installations by sector groups

All the installations referred to in the Plan are divided into the following sector groups:

1) **energy.** This group consists of installations whose main function is the manufacture of thermal energy or thermal energy and electricity;

2) **industry.** This group consists of installations which carry out any of the polluting activities listed in parts 2, 3 or 4 of Annex 2 to the „Law on Pollution” (for instance installations manufacturing clinker cement, ceramics products, steel etc.), and combustion plants which use the thermal energy they produce for manufacturing purposes (for instance milk processing, textile manufacturing and wood processing enterprises etc.);

²⁶ Approved under Cabinet Order No 699 of 12 November 2007 “Conception of options for the allocation of emissions allowances during the period 2008–2012”.

3) **new entrants.** This group consists of existing and potential installations which began participating or plan to begin participating in the system after 16 August 2006. This group also includes installations expanding their polluting activities, i.e. by establishing supplementary technological units that perform the polluting activities listed in Annex 2 to the „Law on Pollution”. Figures show that the annual emissions allowance quantities required by new entrants is 1.989 million²⁷ (1.379 million in 2008, 1.983 million in 2009, 2.167 million in 2010, 2.202 million in 2011 and 2.213 million in 2012).

2.1.2. Base year data

Emissions allowances are allocated in accordance with base year data. This term refers to the average arithmetic verified emissions by EU ETS participants for the period 2005–2006, corrected using the best available information and relating to the following cases:

- 1) installations which began participating in the system after 1 January 2005. In this case the average arithmetic verified emissions for 2005–2006 do not reflect the actual emissions allowance amounts required for the installations' operations (as calculations are based on a period shorter than two years), hence the installations' verified emissions data for 2006 are used as base year data;
- 2) installations which began participating in the system after 1 January 2005. In this case the average arithmetic verified emissions for 2005–2006 do not reflect the actual emissions allowance amounts required for the installations' operations (as calculations are based on a period shorter than two years), hence the installations' real CO₂ emissions (according to monitoring data) over one calendar year of the operator's choice after 1 January 2006 are used as base year data (for instance 1 June 2006 to 31 May 2007);
- 3) installations which are not ETS participants during 2005–2007 but wish to participate voluntarily in the ETS from 1 January 2008. These installations do not have verified data for 2005 and 2006, therefore the installations' average arithmetic verified CO₂ emissions for the period 2005–2006 are used as base year data (information provided by operators, including application documents for GHG emissions permits for 2008–2012);
- 4) installations which expanded their existing polluting activities up to 1 December 2005. In this case the average arithmetic verified emissions for 2005–2006 do not reflect the actual emissions allowance amounts required for the installations' operations (as calculations are based on a period which is shorter than two years), hence verified data for 2006 are used as base year data;
- 5) installations which expanded their existing polluting activities between 1 January 2006 and 16 August 2006. In this case the average arithmetic verified

²⁷ Emissions allowance prognoses are based on the political planning documents referred to in paragraph 1.6 of the 2008–2012 National Emissions Allowance Allocation Plan, on information on the construction of new installations provided by the Ministry of Economics and other State and local government authorities, and on surveys carried out among operators participating in the 2005–2007 ETS. The information was reviewed and updated by the Ministry of Economics in September 2007.

emissions for 2005–2006 do not reflect the actual emissions allowance amounts required for the installations' operations (as calculations are based on a period which is less than two years), hence the installations' real CO₂ emissions (according to monitoring data) over one calendar year of the operator's choice after 1 January 2006 are used as base year data (for instance 1 June 2006 to 31 May 2007);

6) installations which have withdrawn from the EU ETS since 1 January 2008. The total amount of base year emissions of the sector to which this installation belongs is thereby corrected (reduced);

7) installations at which sugar production is discontinued during the period 2008–2012. In this case the installations' average arithmetic verified emissions data for the period 2005–2006 are used as base year data, subtracting the amount of CO₂ emitted as a result of the sugar production process during these years. The total amount of base year emissions of the sector to which this installation belongs is thereby corrected (reduced).

2.1.3. Emissions allowance allocation conditions

Emissions allowance allocation conditions at sector and installation levels are established in accordance with the Conception of options and the 6th proposal approved by the Cabinet of Ministers:

- ✓ growth of existing industrial installations during 2008–2012 at a rate of 6% compared with base year data;
- ✓ reduction in emissions from existing industrial installations at a rate of 20% compared with base year data;
- ✓ new entrants reserve: the difference between the amount allocated by the Commission (3.398483 annually) and the amounts to be allocated to installations, taking into account applicable growth (in the case of industrial installations) and reduction (in the case of energy installations) in emissions.

In addition to the above conditions, further conditions are applicable with regard to the allocation of emissions allowances from the reserve for new entrants, providing for access to the reserve for as many new entrants as possible. Each installation is thus allocated the following:

- 1) no more than 80% of the emissions allowance amount required by the installation and
- 2) no more than 45% (in the case of industrial installations) or 20% (in the case of energy installations) of the total reserve for new entrants.

2.2. Emissions allowances at sector level

Distribution of the total allowance amount by sector is achieved by adding up the total quantity of emissions allowances calculated for installations in a given sector taking into account each installation's base year data and the growth or reduction in emissions laid down for the sector compared with base year data.

More detailed figures on the distribution of emissions allowances between existing and new installations are given in Table 1.

Table 1

	Annual average (millions) for 2008–2012	TOTAL (millions) for 2008–2012
SUM TOTAL , including	<u>3,398483</u>	<u>16,992415</u>
Energy	<u>1,576935</u>	<u>7,884675</u>
Industry	<u>1,020809</u>	<u>5,104045</u>
New entrants	<u>0,800739</u>	<u>4,003695</u>

2.3. Emissions allowances at installation level

Annual emissions allowances for each installation included in the Plan are calculated using the equation:

$$EQ = A \times B \quad [1]$$

where

EQ - emissions allocations;

A - the installation's base year data;

B - the growth or reduction in emissions laid down for the sector compared with base year data²⁸.

The total amount of emissions allowances for 2008–2012 is calculated by multiplying annual emissions allowances by five.

Installations or parts of installations that began operations after submission of the 2008–2012 National Emissions Allowance Allocation Plan to the European Commission, that is after 16 August 2006, are allocated emissions allowances from the reserve under the procedures described in section 3 of the Plan.

2.4. Voluntary emissions allowance trading scheme participants

In accordance with the “Law on Pollution”, installations which perform the polluting activities listed in Annex 2 to the “Law on Pollution”, but at lower volumes than the limits listed in the Annex 2, may participate voluntarily in the EU ETS.

The same allowance allocation, greenhouse gas emission monitoring and reporting conditions apply to voluntary EU ETS participants as apply to those whose participation is compulsory.

6 voluntary operators who became participants during the period of 2005-2007 and will participate during the period of 2008-2012 have been included. The list of these installations is given in Table 2 of the Plan.

²⁸ See section 2.1.3 of the Plan

Three voluntary (opt-in) installations are willing to start to participate in the system during the period of 2008-2012. The list of these installations is given in Table 3 of the Plan. Allowances to the mentioned installations will be allocated after the Decision of the European Commission on inclusion of these installations in the EU ETS. In regard to these installations, Latvia will present a special application (submission of the application is prescribed in the Article 24 of the Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC) requesting to allocate additional allowances according with the allowances allocations provided in Table 3 of the Plan.

2.5. Previous measures aimed at reducing greenhouse gas emissions

Previous GHG reduction measures have not been taken into account in calculating operator allowances.

2.6. Procedures for avoiding surplus allocation of emissions allowances to operators

Since the Plan was submitted to the Commission Latvia has amended the main methodological principles for allocating emissions allowances, whereby emissions allowances are allocated to installations in accordance with their last average operational indicators, laying down stricter emissions allowance reduction measures, in particular for energy supply installations. Growth factors reflect Latvia's general developmental trends as well as the proportion and rates of development of individual sub-sectors over recent years. By using this new methodology Latvia has increased the transparency of its emissions allowance allocation procedure and has ensured that operators are not granted more emissions allowances than necessary.

2.7. Installation pooling

The procedure for forming installation pools is laid down in the Law “On Pollution” and in Cabinet Regulation No 661 of 3 August 2004 “On procedures for running activities under emissions allowances and for establishing installation pooling”. Operators were able to decide to form installation pools for 2008–2012 by September 1 2007, by which date proposals on installation-pool formation had to be submitted.

No such proposals on installation-pool formation had been received by 1 September 2007.

3. New entrants

Latvia has provided for an allowance reserve for new entrants, due to come into operation from the date on which the Plan is submitted to the Commission (1 August 2006) until 2012.

The total emissions allowance for new entrants is calculated in accordance with the conditions set out in section 2.1.3. of the Plan, whereby the reserve for new entrants is the difference between the amount allocated by the Commission (3.398483 annually) and the amounts to be allocated to installations, taking into account applicable growth (in the case of industrial installations) and reduction (in the case of energy installations) in emissions. The total emissions allowance reserve for new entrants is set out in table 1.

In accordance with principles set out in legal provisions, the use of an installation's operational indicators in calculating emissions allowance reserves does not guarantee the allocation of emissions allowances to a specific installation or a specific operator. Pursuant to the Law on Pollution emissions allowance allocations for new entrants are laid down by the Ministry of the Environment, by means of a decision on the allocation of allowances to an operator who has received a GHG emissions permit. Allowances are calculated using the methodology set out in the Plan, Cabinet Regulation No 778 of 7 September 2004 on procedures for performing greenhouse gas emissions monitoring, and for reviewing and approving annual reports on greenhouse gas emissions, and in Commission Decision 2007/589/EC²⁹, taking into account the requirements of laws and regulations in the area of the emissions allowance trading scheme.

Allowances for new installations are allocated free of charge from the emissions allowance reserve for new entrants. New entrants are eligible for emissions allowances from the reserve in the order in which they were granted GHG permits for 2008–2012 or in which amendments were made to such permits showing information on the expansion of an installation's activities. If at the moment of issuing a permit or its amendments it is not possible to operate with the new installation technically (the capacity of the installation is proved by a confirmation document presented by the operator, for example, a certificate of acceptance of the new installation), the installation loses its place in the order, where it applies for allowance allocation. By submission of respective confirmation documents in the Ministry of Environment an installation of that kind re-applies for allowances allocation (in this case the order in which the installation applies for allowances allocation is set by the data of the submission of a confirmation document). Should the reserve be exhausted, emissions allowances will have to be purchased in the emissions allowance market under general market conditions.

²⁹ Commission Decision 2007/589/EC establishing guidelines for the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC

3.1. Emissions allowance calculations for new entrants

Those operators who meet the conditions laid down in Section 32.²(4) of the “Law on Pollution” will be able to apply for an allowance reserve for new entrants.

To receive allowances for new installations, a report by an energy auditor³⁰ must be included in the application for a GHG emissions permit (in the case of industrial installations an expert's³¹ opinion is also required) indicating the new technological installation's or production installation's conformity with defined capacities, the number of consumers connected, and its operational security (contracts with consumers, connections to pipelines, etc.), as well as other documents validating the information included in the submission.

Decisions on the allocation of allowances to new installations will be taken by the Ministry of the Environment in view of the main conditions listed in Section 32¹(3)(3), (4), (8), (9) and (12) of the “Law on Pollution”:

1) account must be taken of the requirements of other laws and regulations relating to the increase or reduction of greenhouse gas emissions;

2) account must be taken of the condition that the amount of allowances allocated to a particular installation must not exceed the quantity it actually requires, in view of the installation's potential (including technological potential) for greenhouse gas emissions reduction;

3) information must be included on greenhouse gas emissions reduction measures already taken, including those using the best technical practice guidelines for category A installations;

4) account must be taken of the effect of clean technology, including energy-efficient technology, on greenhouse gas emissions;

5) provisions that discriminate against enterprises or sectors, or conditions which could be regarded as state support that does not conform with laws and regulations must not be included;

6) emissions allowances must not be allocated in respect of any production amounts (of thermal energy, electricity or other production) allocated to existing EU ETS installations.

Allowance calculation methodologies have been developed for new installations falling under the following new installation categories:

- I. construction of new boiler houses;
- II. construction of cogeneration plants;
- III. construction of condensation plants;
- IV. new industrial production facilities.

³⁰ Here and hereinafter the term "energy auditor" is used to describe a person who has received an energy auditor's certificate, or, if there is no such person in Latvia, a person who has received training in performing energy audits.

³¹ Here and hereinafter the term "independent expert" is used to describe a person who has completed a course of higher education in technical engineering, has over 5 years' experience in the corresponding sector and who does not work for and is not connected in any other way with the installation concerned.

An additional methodology has been developed for cases where, during the period the Plan is being drafted, an installation does not conform to the production capacity conditions listed in Annex 2 to the “Law on Pollution”, but conforms after additional technological installations are installed, or the existing installation (or part thereof) is replaced with a new installation during 2008–2012.

The allowance amounts allocated to new installations are set depending on planned production:

- for boiler houses:
 - thermal energy consumers;
- for cogeneration plants:
 - thermal energy consumers and technical options for production of electrical energy;
- for condensation plants:
 - electrical energy consumers;
- for industrial production facilities:
 - sales volumes.

Pursuant to section 2.1.3. of the Plan emissions allowances are allocated from the reserve for new entrants on two further conditions. *Each installation is allocated:*

1) no more than 80% of the emissions allowance amount required by the installation and

2) no more than 45% (in the case of industrial installations) or 20% (in the case of energy installations) of the total reserve for new entrants.

Methodology descriptions for calculating essential emissions quota amounts are provided in sections 3.1.1–3.1.7 of the Plan.

3.1.1. Methodology for new boiler house construction

Allowances necessary in cases of new boiler house constructions are calculated using the following equation:

$$EQ_{km} = \frac{Q_{km} \cdot R \cdot O \cdot 0,0036 \cdot 100}{\eta - q_{sz}}, \text{ tCO}_2/\text{per annum} \quad [2]$$

where

- EQ_{km} - allowances for the new boiler house;
- Q_{km} - forecast thermal energy consumption, MWh/per annum
- R - emissions factor as shown in the latest Latvian Environmental, Geological and Meteorological Agency report on total national GHG emissions submitted to the secretariat of the UN Framework Convention on Climate Change (hereinafter national report UNFCCC), t CO₂/TJ;
- O - oxidation factor listed in table 1;

η - boiler house coefficient of efficiency, (if data not available, then assumed to be 0.95, if using natural gas or diesel fuel, and 0.90, if using other fuel types);

q_{sz} - heat loss in heating grids (outside boiler houses), assumed to be no more than 0.1.

Forecast thermal energy consumption is set by totalling each connected thermal energy consumer's annual consumption:

$$Q_{km} = \sum Q_i, \text{ MWh/per annum}, \quad [2.1]$$

where

Q_i - each thermal energy consumer's (building or technological facility) annual thermal energy consumption, MWh/per annum.

If the thermal energy consumers are buildings, then the annual thermal energy consumption is calculated using the following equation:

$$Q_i = q \cdot \frac{F}{1000}, \text{ MWh/per annum}, \quad [2.2.a]$$

where

F - the building's heatable space, m^2 ;

q - specific thermal energy consumption in standard climatic conditions, kWh/m^2 per year, which is set by the energy auditor, or if auditor's figures are unavailable it is assumed to be 100kWh/m^2 per annum for new buildings or 150kWh/m^2 for existing buildings.

If the thermal energy consumer is a technological process (including agricultural production, for instance, greenhouses), then the annual thermal energy consumption is calculated from the following equation:

$$Q_i = b \cdot P, \text{ MWh/per annum}, \quad [2.2.b]$$

where

P - volume of product manufactured, t/per annum;

b - specific thermal energy consumption per unit produced, which is evaluated by a market research report (best available technologies for similar production facilities in Europe) and approved by an energy auditor, MWh/t .

The forecast production volume is determined on the basis of contracts signed with buyers and market research into the product's sales. It is calculated using the following equation:

$$P = P_{ppcl} + P_{pnpc}, \text{ t/per annum}, \quad [2.3]$$

where

P_{ppcl} - production volume, for which purchasing contracts have been agreed with buyers, if no data available, then assumed to be no greater than 20% of the maximum production volume ($0,2 \cdot P_{\max}$), t/per annum;

P_{pnpc} - production volume, for which no purchasing contracts have been agreed, assumed to be no greater than 10% of the maximum production volume ($0,1 \cdot P_{\max}$), t/per annum.

Forecast maximum production volume is set according to the installation's capacity and time operated:

$$P_{\max} = U \cdot \tau, \text{ t/per annum,} \quad [2.4]$$

where

- P_{\max} - maximum volume of finished product, t/per annum,
 U - capacity set for technological installations, t/h,
 τ - number of hours of operation per annum for technological installations, h/per annum.

3.1.2. Methodology for cogeneration plant construction

Allowances necessary in cases of new cogeneration plant construction are calculated using the following equation:

$$EQ_{\text{ko}\dot{g}} = \frac{\left[\left(\frac{Q_{\text{ko}\dot{g}}}{(1 - q_{sz})} \right) + E \right] \cdot R \cdot O \cdot 0,0036}{\eta_{\text{ko}\dot{g}}}, \text{ tCO}_2/\text{per annum,} \quad [3]$$

where

- Q_{cog} - forecast thermal energy consumption, MWh/ per annum
 q_{sz} - heat losses in heating grids, if no data available, then assumed to be no greater than 10%)
 E - quantity of electrical energy produced, MWh/per annum
 η_{cog} - cogeneration plant coefficient of efficiency, (if no data available, then assumed to be 80%, where coal or peat is used, and 0.85, if natural gas or diesel fuel is used).

Forecast thermal energy consumption is determined by totalling each connected thermal energy consumer's annual consumption:

$$Q_{\text{cog}} = \sum Q_i, \text{ MWh/per annum,} \quad [3.1]$$

where

- Q_i - each thermal energy consumer's (building, or technological facility) annual thermal energy consumption, MWh/per annum.

In cases where the thermal energy consumers are buildings, then the annual thermal energy consumption is determined using the equation:

$$Q_i = q \cdot \frac{F}{1000}, \text{ MWh/per annum,} \quad [3.2.a]$$

where

- F - the building's heatable space, m²;
 q - specific thermal energy consumption in standard climatic conditions, kWh/m² per year, which is determined by the energy auditor, or if auditor's figures are unavailable it is assumed to be 100kWh/m² per annum for new buildings or 150kWh/m² for existing buildings.

If the thermal energy consumer is a technological process (including agricultural production, for instance, greenhouses), then the annual thermal energy consumption is determined using the following equation:

$$Q_i = b \cdot P, \text{ MWh/per annum,} \quad [3.2.b]$$

where

- P - volume of product manufactured, t/per annum;

b - specific thermal energy consumption per unit produced, which is evaluated by a market research report (best available technologies for similar production facilities in Europe) and approved by an energy auditor, MWh/t.

The forecast production volume is determined on the basis of contracts signed with buyers and market research into the product's sales. It is calculated using the following equation:

$$P = P_{ppc} + P_{pnpc}, \text{ t/per annum,} \quad [3.3]$$

where

P_{ppcl} - production volume, for which purchasing contracts have been agreed with buyers, if no data available, then assumed to be no greater than 20% of the maximum production volume ($0,2 \cdot P_{max}$), t/per annum;

P_{pnpc} - production volume, for which no purchasing contracts have been agreed, assumed to be no greater than 10% of the maximum production volume ($0,1 \cdot P_{max}$), t/per annum.

Forecast maximum production volume is determined according to the installation's capacity and time operated:

$$P_{max} = U \cdot \tau, \text{ t/per annum,} \quad [3.4]$$

where

P_{max} - maximum volume of finished product, t/per annum,

U - capacity set for technological installations, t/h,

τ - number of hours of operation per annum for technological installations, h/per annum.

The forecast quantity of electrical energy produced is determined depending on the quantity of thermal energy produced and is confirmed by means of a contract with the electricity consumer:

$$E = \alpha \cdot Q_{cg}, \text{ MWh/per annum,} \quad [3.5]$$

where

α - the relationship between electrical energy and thermal energy produced which is dependent on cogeneration plant technology (taken from the installation's technical documentation) and confirmed by the energy auditor.

Where the electricity market has been liberalised, consumption of electricity produced by a new cogeneration station is fixed in line with commercial contracts with consumers buying the electricity produced by the new cogeneration station.

3.1.3. Methodology for condensation plant construction

Allowances necessary in cases of new condensation plant construction are calculated using the following equation:

$$EQ_{kd} = \frac{0,0036 \cdot E \cdot R \cdot O}{\eta}, \text{ tCO}_2/\text{per annum} \quad [4]$$

where

E - where the electricity market has been liberalised, consumption of electricity produced by a condensation station is fixed in line with commercial contracts with consumers buying the electricity produced by the new condensation station, MWh/per annum;

η - coefficient of efficiency, (if no data available, then assumed to be 0.4, where coal or peat is used, and 0.5, if natural gas or diesel fuel is used).

3.1.4. Methodology for new production facility construction

Allowances needed per production unit for the construction of new industrial installations are calculated in line with the relevant methodologies laid down in Commission Decision 2004/156/EC establishing guidelines for the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC. The total amount of allowances is determined using the following equation:

$$EQ_{rupn} = a \cdot kP + B \cdot Q_z^d \cdot R \cdot O, \text{ t CO}_2/\text{per annum}, \quad [5]$$

where

P - volume of finished product, t/per annum;

a - emissions per unit manufactured calculated in line with Commission Decision 2007/589/EC, t CO₂/t;

k - coefficient expressing the quantity of raw materials used to produce one production unit;

B - fuel consumption, per annum, t/per annum or 1000m³/per annum (depending on fuel type);

Q_z^d - net calorific value (in accordance with table 1).

The forecast production volume is determined on the basis of contracts signed with buyers and market research into the product's sales. It is calculated using the equation:

$$P = P_{nosl} + P_{par}, \text{ t/per annum}, \quad [5.1]$$

where

P_{nosl} - production volume, for which purchasing contracts have been agreed with buyers, if no data available, then assumed to be no greater than 20% of the maximum production volume ($0,2 \cdot P_{max}$), t/per annum;

P_{par} - production volume, for which no purchasing contracts have been agreed, assumed to be no greater than 10% of the maximum production volume ($0,1 \cdot P_{max}$), t/per annum.

The forecast maximum production volume is determined according to the installation's capacity and time operated:

$$P_{max} = U \cdot \tau, \text{ t/per annum}, \quad [5.2]$$

where

P_{max} - maximum volume of finished products, t/per annum,

U - capacity set for technological installations, t/h,

τ - number of hours of operation per annum for technological installations, h/per annum.

3.1.5. Methodology for installations which, during the drafting of the Plan, did not comply with the production capacity conditions laid down in Annex 2 to the Law “On Pollution”, but will comply during the period 2008-2012

Allowances for installations which, during the drafting of the Plan, did not comply with the production capacity conditions referred to in the Law “On Pollution”, and for which allowances are not included in the Plan, but which will increase their production capacity by 31 December 2012 to a level which makes their participation in EU ETS obligatory, are calculated using the following principles:

1. emissions allowances in respect of capacities and production volumes for existing installations are calculated on the basis of equation [1] and the emissions allowance allocation principles described in section 2, depending on the sector to which the installation concerned belongs;
2. emissions allowances in respect of capacities for new entrants are calculated on the basis of the principles described in section 3, depending on the sector to which the installation concerned belongs.

3.1.6. Replacement of existing installations with new installations.

The calculation methodology described in this section is applicable where an existing installation or a part of an installation (technological unit) which participates in the EU ETS (hereinafter, the replaced installation) is replaced³² by a new installation whose participation in the EU ETS is compulsory.

When emissions allowances are allocated to a new installation the following basic principles must be observed:

1. emissions allowances are not granted in respect of production amounts (thermal energy, electricity or other production) granted and transferred to the GHG emissions unit registry account belonging to the replaced installation's operator.
2. where an increase in production levels is not planned when an installation is replaced, a quantity of emissions allowances is granted which is equal to the quantity of emissions allowances not granted to the replaced installation³³;
3. in addition to the quantity of emissions allowances referred to in point 2 above, emissions allowances are granted in respect of production amounts justified by new increases in production amounts (new heatable area, new electrical energy, hot water or steam consumers, an increase in the size of the

³² Replacement refers to a situation where an existing installation stops operating and its GHG emissions permit is withdrawn or the installation's permit is amended, whereby the replaced part of the installation (technological unit) is deleted from the list of technological installations (see section 3.1.7), and the new installation inherits the replaced installation's consumers and takes over equivalent activities to those practised by the replaced installation

³³ The quantity of emissions allowances not granted refers to the quantity of allowances not granted to an installation because a GHG emissions permit has been withdrawn (see section 3.1.7).

market) for which evidence such as supply contracts and market surveys must be provided.

3.1.6.1. *Boiler house → boiler house*

Emissions allowances for new installations are granted on the basis of the principles set out in section 3.1.6.

Where replacement of an installation is planned to result in an increase in thermal energy consumption (new heatable area, new electrical energy, hot water or steam consumers) emissions allowances for the increase in thermal energy consumption are calculated on the basis of the methodology described in section 3.1.1.

3.1.6.2. *Boiler house → cogeneration installation*

Where a new cogeneration installation replaces an existing boiler house's installations, inheriting the existing installation's thermal energy consumers, and their energy consumption does not increase (for example, a new cogeneration installation is fitted in a boiler house to service that boiler house's thermal energy consumers), the amount of allowances to be allocated to the new installation is calculated on the principle that allowances are only allocated for the production of electrical energy, taking into account the proportions of electrical energy and thermal energy, pursuant to the new installation's technical documentation:

$$EQ = (Q_{kog} - Q_{katli}) \cdot \alpha \cdot R \cdot O, \text{ tCO}_2/\text{per annum}, \quad [6]$$

where

$Q_{km\ jauni}$ - the thermal energy consumption of new thermal energy end users is determined in accordance with the methodology described in section 3.1.1 (see equations 2.1, 2.2a, 2.2b, 2.3 and 2.4).

Where replacement of an installation is planned to result in an increase in thermal energy consumption linked to new consumers (new heatable area, new electrical energy, hot water or steam consumers), evidence for the anticipated increase must be provided in the form of supplementary contracts. In such cases, allowances are calculated using equation [6].

3.1.6.3. *Cogeneration installation → cogeneration installation*

Where a new cogeneration installation replaces an existing cogeneration installation, inheriting the existing installation's thermal energy consumers (for example, a new cogeneration station is constructed to service an existing cogeneration station's thermal energy consumers), the amount of allowances allocated to the new installation is calculated using this equation:

$$EQ = [(Q_{kog_j} - Q_{katli_j}) \cdot \alpha_{jaun} - (Q_{kog_{es}} - Q_{katli_{es}}) \cdot \alpha_{es}] \cdot R \cdot O, \text{ tCO}_2/\text{per annum}, \quad [7]$$

where

$Q_{koğj}$ - annual thermal energy production when a new cogeneration plant has been constructed, MWh/per annum (in line with the methodology described in Section 3.1.2);

Q_{katlij} - annual thermal energy production of the existing installation, MWh/per annum;

α_{jaun} - the proportions of electrical energy and thermal energy produced, which depends on the cogeneration plant's technology (in accordance with the installation's technical documentation);

$Q_{koğes}$ - annual thermal energy production when a new cogeneration plant has been constructed, MWh/per annum;

$Q_{katlies}$ - annual thermal energy production in boilers, MWh/per annum;

α_{es} - the proportions of electrical energy and thermal energy produced, which depends on the cogeneration plant's technology (in accordance with the installation's technical documentation).

Where existing cogeneration installations are being replaced, allowances are only allocated where there is verification that the historic thermal energy consumption of thermal energy end users does not overlap with another installation connected to an ETS heating supply system. If a number of ETS installations that have been allocated allowances operate within the heating supply system, allowances for the existing cogeneration installations are calculated in line with the surplus principle (the difference between the total thermal energy consumption of the existing system [established by counting the number of thermal energy consumers connected to the existing heating networks] and the total thermal energy produced by the energy resources [connected to the system] in accordance with the previous year's verified data). In the case of a liberalised electrical energy supply market, the consumption of the electrical energy produced by the new cogeneration station is determined in accordance with commercial contracts with the consumers buying the electrical energy produced in addition to existing amounts (see section 3.1.2).

3.1.6.4. Industrial installations

Allowances for new installations are allocated using the methodology described in section 4.1.6.

Where increases in production volumes are planned when replacing existing industrial installations, the allocation of allowances for the increase in production volumes is calculated in accordance with the methodology described in section 3.1.4 and based on contracts concluded with buyers and market surveys.

3.1.7. Closure of installations and withdrawal of greenhouse gas emissions permits

Where part of an installation is closed down, the operator is obliged to notify the State Environmental Service's Regional Environmental Board at least 60 days

before these operational changes to existing polluting activities come into effect³⁴. Where an entire installation is closed down the operator is obliged to notify the Regional Environmental Board at least 30 days before the closure³⁵. On the basis of a given operator's notification, the Regional Environmental Board makes the appropriate amendments to the GHG emissions permit issued to the installation (where part of the installation is being closed down) or annuls it (where the entire installation is being closed down or where the installation is no longer carrying out the polluting activities referred to in Annex 2 to the “Law on Pollution” and the installation's operator does not wish to continue this installation's voluntary participation in the EU ETS).

Pursuant to Section 32.² of the “Law on Pollution”, the Ministry of the Environment is responsible for deciding not to allocate allowances to operators whose GHG emissions permits have been annulled. In such cases, the unallocated quantity of allowances is added to the allowance reserve for new entrants. Where a new installation replaces an installation or part of an installation that has been closed down, its allowances are calculated in accordance with the methodology set out in section 3.1.6.

3.2. Greenhouse gas emissions permits

Operators must be granted GHG emissions permits for 2008–2012 in accordance with the “Law on Pollution” and the procedures set out in Cabinet Regulation No 400 of 22 April 2004 “On procedures for requesting and granting greenhouse gas emissions permits”. Pursuant to legislation, allowances are not allocated to operators until they have received GHG emissions permits.

4. Public hearings

The national allocation plan, approved under Cabinet Order No 608 of 9 August 2006, was submitted for public hearing between 11 April and 10 May 2006, including a public discussion at the offices of the Ministry of Environment on 28 April 2006. The meeting was attended by 42 people, including installation operators, representatives of the State Environmental Service's Regional Environmental Boards, various governmental and non-governmental organisations, as well as representatives of verifying and consultancy companies. A number of letters were also received during the public hearing period. The main comments on the part of companies and professional associations were linked to concerns about insufficient quantities of allowances being allocated. Taking into account the comments expressed during the public hearing, individual discussions with companies and letters from companies and professional associations, a number of updates and addenda were made to the

³⁴ Pursuant to paragraph 2 of Cabinet Regulation No 400 of 22 April 2004 on procedures for requesting and granting greenhouse gas emissions permits.

³⁵ Pursuant to section 30(4) of the Law on Pollution.

document before it was submitted for approval by the Cabinet. The approved document was submitted for review by the Commission on 16 August 2006.

Taking into account the discrepancies in the National Emissions Allowance Allocation Plan submitted by Latvia on 16 August, as specified in the Commission Decision of 29 November 2006, the Ministry of Environment, in consultation with representatives of the Ministry of Economics, the Ministry of Regional Development and Local Government, the Latvian Association of Local and Regional Governments, and the Latvian Association of Heating Companies, prepared a new 2008–2012 National Emissions Allowance Allocation Plan. The Draft Plan was submitted for public hearing between 18 and 22 December 2006, with a public discussion held on 21 December 2006 in the offices of the Ministry of Environment.

17 letters were received during the public hearing period. 60 participants attended the public hearing on 21 December 2006 – commercial operators and representatives of state and municipal authorities. During the meeting, the participants were familiarized with the draft amendments, the calculation methodology, the principles of allowance allocation and a time schedule for the preparation of the Draft Plan and its submission to the Commission. In the light of comments and proposals expressed during the public hearing, a number of amendments were made to the Draft Plan. The main amendments related to correcting the carbon-intensity reduction factor used in calculating the total quantity of national emissions allowances, and correcting the resulting growth factors and carbon-intensity reduction factors at sector level. A proposal received during the public hearing period to increase the maximum permitted unit utilisation range created under Kyoto Protocol project mechanisms to 10%, was also adopted.

In the light of the Commission's Decision of 13 July 2007 on Latvia's emission allocation plan submitted on 29 December 2006, a conception of options was drafted for the allocation of emissions allowances during the period 2008–2012 was drawn up. The conception of options was submitted for public hearing from 4 to 16 October 2007, during which period 19 letters were received. A public discussion relating to the draft conception of options was held on 16 October 2007 at which there were 47 participants – commercial operators, representatives of governmental and non-governmental organisations and members of the press. The most important points raised by members of the public related to the need to define more precisely the impact of the emissions allowance allocation scenarios set out in the conception of options on production prices and tariffs; the importance of reflecting new entrants' real activities as closely as possible in the allocation of allowances to these installations; and to separate thermal energy and electricity production in the allocation of allowances in view of their differing impacts on increases in tariffs and inflation. A proposal was made to make greater use of biomass which would reduce the need to purchase the shortfall in emissions allowances. It was pointed out that support should not be offered to emissions allowance allocation scenarios which

favour the development of individual business sectors and transfer the main costs of purchasing emissions allowances to a low-income section of society. During the public hearing support was expressed for all the proposed options in the document, and further options were also put forward for the allocation of emissions allowances.

In the light of the approved conception of options, amendments were drafted to the 2008–2012 National Emissions Allowance Allocation Plan. The draft amendments were submitted for a public hearing between 15 and 27 November 2007, during which period six letters were received, and a public discussion took place on 27 November at the offices of the Ministry of the Environment. 28 people participated in the public discussion – commercial operators, representatives of governmental and non-governmental organisations and members of the press. The most important points raised by members of the public concerned the issue that the large reduction in emissions allowances would mean that people living in Latvia would be subject to higher electricity and heating costs; there were also a lack of clarity concerning energy auditors' reports and questions were raised as to whether the natural resources tax would be increased and about the criteria an installation must meet to qualify for emissions allowances from the reserve for new entrants.

Taking into account the letter of the Directorate General of Environment of the Commission No ENV/C2/IB/bm D (2008)7156 of 30 May 2008 on the emission allocation plan of Latvia approved on 17 December 2007 amendments to the Plan were developed. The public discussion of the draft amendments to the Plan took place on 14 August of 2008. 16 participants took part in it.

As far as the future anticipated involvement of the public in discussions about amendments or addenda to the Plan is concerned, the public will also be notified about anticipated amendments to the Plan through information on the Environment Ministry's website. Procedures laid down in legislation will ensure that public opinion about anticipated amendments will be heard. Amendments will be published in the official gazette “Latvijas Vēstnesis”, on the Environment Ministry's internet website, in the legislation information system (NAIS) and in other public media.

No	Operator	Installation	Address	Production type	Compulsory (C)/ voluntary (V) participation	Average annual emissions during base period	Emissions allowances (number)					
							2008	2009	2010	2011	2012	TOTAL
	<u>Jelgava</u>	Rūpniecības ielā 73	Jelgava, LV-3007	production								
20	SIA "Jēkabpils siltums"	Boiler house	Tvaika iela 4, Jēkabpils, LV-5201	Thermal energy production	C	8 039 ^A	6 431	6 431	6 431	6 431	6 431	32 155
21	SIA "Jūrmalas siltums"	Boiler house Aizputes 1a	Aizputes iela 1d, Jūrmala, LV-2016	Thermal energy production	V	2 921 ^A	2 336	2 336	2 336	2 336	2 336	11 680
22	SIA "Jūrmalas siltums"	Boiler house "Dubulti"	Slokas iela 47a, Jūrmala, LV-2015	Thermal energy production	C	9 054 ^A	7 243	7 243	7 243	7 243	7 243	36 215
23	SIA "Jūrmalas siltums"	Boiler house Kaugurģi	Libiešu iela 9, Jūrmala, LV-2016	Thermal energy production	C	27 483 ^A	21 986	21 986	21 986	21 986	21 986	109 930
24	SIA "Jūrmalas siltums"	Boiler house Konkordijas ielā	Konkordijas iela, Jūrmala, LV-2016	Thermal energy production	V	1 754 ^A	1 403	1 403	1 403	1 403	1 403	7 015
25	SIA "Kalnciema ķieģelis"	Kalnciems fired bricks	Jelgavas iela 17, Kalnciema pils., Jelgavas raj., LV-3016	Production of fired bricks	C	10 862 ^C	11 514	11 514	11 514	11 514	11 514	57 570
26	SIA "Kalnciema ķieģelis"	Āne	Celtnieku iela 12, Jelgavas rajons, Cenu pagasts, Ozolnieku novads, LV-3043	Production of clay bricks	C	5 817 ^A	6 165	6 165	6 165	6 165	6 165	30 825
27	SIA "KP Tehnoloģijas"	Boiler house	Rīgas iela 98, Ogre LV-5001	Production of yarn and knitted products	C	8 248 ^B	8 743	8 743	8 743	8 743	8 743	43 715
28	SIA "Krāslavas nami"	Boiler house	Latgales ielā 14, Krāslava, LV-5601	Thermal energy and electricity production	C	1 653 ^A	1 322	1 322	1 322	1 322	1 322	6 610
29	SIA "Latelektro Gulbene"	Boiler house	Miera iela 17, Gulbene, LV-4401	Thermal energy and electricity production	V	0 ^A	0	0	0	0	0	0

No	Operator	Installation	Address	Production type	Compulsory (C)/ voluntary (V) participation	Average annual emissions during base period	Emissions allowances (number)					
							2008	2009	2010	2011	2012	TOTAL
64	SIA "Saulkalne S"	Saulkalne S	Saulkalne, Salaspils lauku teritorija, Rīgas rajons, LV-2117	Vegetable growing	C	5 991 ^A	6 350	6 350	6 350	6 350	6 350	31 750
65	SIA "Talsu Bio-enerģija"	Boiler house	Pumpura iela 12, Talsi, LV-3200	Thermal energy production	C	0 ^A	0	0	0	0	0	0
66	SIA "Tukuma siltums"	Boiler house	Kurzemes iela 140, Tukums, LV-3010	Thermal energy production	C	3 389 ^A	2 711	2 711	2 711	2 711	2 711	13 555
67	A/S "Valmieras piens"	Boiler house	Rīgas iela 93, Valmiera, LV-4201	Production of milk products	C	11 827 ^A	12 536	12 536	12 536	12 536	12 536	62 680
68	A/S "Valmieras Enerģija"	Boiler house, Dzelzceļa ielā 7	Dzelzceļa iela 7, Valmiera, LV-4201	Thermal energy production	C	10 160 ^A	8 128	8 128	8 128	8 128	8 128	40 640
69	A/S "Valmieras Enerģija"	Boiler house Rīgas ielā 25	Rīgas iela 25, Valmiera, LV-4201	Thermal energy production	C	12 667 ^A	10 133	10 133	10 133	10 133	10 133	50 665
70	A/S "Valmieras stikla šķiedra"	Valmieras glass fibre	Cempu iela 13, Valmiera, LV-4200	Glass-fibre production	C	29 121 ^A	30 868	30 868	30 868	30 868	30 868	154 340
71	A/S "Ventbunkers"	Boiler house	Dzintaru iela 90, Ventspils, LV-3602	Transshipment of oil products	C	24 782 ^A	26 269	26 269	26 269	26 269	26 269	131 345
72	P SIA "Ventspils siltums"	Boiler house māja Brīvības ielā 38	Brīvības iela 38, Ventspils, LV-3600	Thermal energy production	C	33 519 ^A	26 815	26 815	26 815	26 815	26 815	134 075
73	SIA "Wesemann – Sigulda"	Boiler house Pulkv. Brieža 109	Pulkv. Brieža iela 109, Sigulda, LV-2150	Thermal energy production	C	1 830 ^A	1 464	1 464	1 464	1 464	1 464	7 320
TOTAL							2 597 744	2 597 744	2 597 744	2 597 744	2 597 744	12 988 720

Notes:

^A – average figures for 2005-2006; ^B – 2006 figures; ^C – figures for the calendar year after 1 January 2006; ^D – corrected average figures for 2005-2006 taking into account suspension of sugar production.

Table 3

Allocation of emissions allowances for voluntary EU ETS participants which start their participation in the EU ETS in the period of 2008-2012

<u>No</u>	<u>Operator</u>	<u>Installation</u>	<u>Address</u>	<u>Production type</u>	<u>Compulsory (C)/ voluntary (V) participation</u>	<u>Average annual emissions during base period</u>	<u>Emissions allowances (number)</u>					
							<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>TOTAL</u>
<u>1</u>	<u>SIA „Jaunpagasts Plus”</u>	<u>Boiler house</u>	<u>Baldones iela 2, Iecava, Bauskas raj., LV-3913</u>	<u>Spirit production</u>	<u>V</u>	<u>3 138^A</u>	<u>3 326</u>	<u>3 326</u>	<u>3 326</u>	<u>3 326</u>	<u>3 326</u>	<u>16 630</u>
<u>2</u>	<u>SIA „Jaunpagasts Plus”</u>	<u>Boiler house</u>	<u>Spirta rūpnīca, Virbu pagasts, Talsu raj., LV-3292</u>	<u>Spirit production</u>	<u>V</u>	<u>8 677^A</u>	<u>9 198</u>	<u>9 198</u>	<u>9 198</u>	<u>9 198</u>	<u>9 198</u>	<u>45 990</u>
<u>3</u>	<u>SIA „Rigans”</u>	<u>Cogeneration installation</u>	<u>Dzintaru iela 60, Rīga, LV-1016</u>	<u>Thermal energy and electricity production</u>	<u>V</u>	<u>3 395^A</u>	<u>2 716</u>	<u>2 716</u>	<u>2 716</u>	<u>2 716</u>	<u>2 716</u>	<u>13 580</u>
<u>TOTAL</u>							<u>15 240</u>	<u>15 240</u>	<u>15 240</u>	<u>15 240</u>	<u>15 240</u>	<u>76 200</u>

Notes:

^A – average figures for 2005-2006

Prime Minister

Mr. I.Godmanis

On behalf of the Environment Minister –
Agriculture Minister

Mr. M.Roze