Text consolidated by Valsts valodas centrs (State Language Centre) with amending regulations of:

13 August 2018 [shall come into force on 16 August 2018];

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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. 1/28 of the Board of the Public Utilities Commission**

Adopted 11 October 2013

**Methodology for the Calculation of the Universal Postal Service Tariffs**

*Issued pursuant to*

*Section 27.1, Paragraph two, Section 32, Paragraph two of the Postal Law and*

*Section 25, Paragraph one of the law On Regulators of Public Utilities*

**I. General Provisions**

1. Methodology for the calculation of the universal postal service tariffs stipulates the procedures by which the universal postal service tariffs shall be calculated by a provider of the universal postal service and the postal merchant participating in the tender (hereinafter jointly – the merchant) organised by the Public Utilities Commission (hereinafter – the Regulator) to determine the provider of the universal postal service (hereinafter – the tender).

2. The following terms are used in this methodology:

2.1. effective tax rate – enterprise income tax rate which is calculated by the merchant in accordance with legal acts, taking into account whether the merchant makes a profit or loss;

2.2. separation of accounts – calculation of profit or loss, used capital and capital financing costs by field of activity;

2.3. [13 August 2018];

2.4. current cost accounting – accounting of merchant’s costs, taking into account the value of fixed assets after revaluation and capital maintenance principles;

2.5. indirect costs – general costs of the merchant which are not directly related to the provision of each individual postal service;

2.6. other services – services other than postal services provided by the merchant;

2.7. other postal services – traditional postal services and other postal services provided by the merchant which are not included in the list of postal services of the universal postal service;

2.8. production capacity – the amount of postal services that can be provided by the merchant within a specified period by making full use of the fixed assets at its disposal;

2.9. direct costs – costs of the merchant which are directly related to the provision of certain postal services;

2.10. transfer payment – cost allocation and calculation in the internal accounting system of the merchant if the universal postal services, other postal services or other services are provided by one unit of the merchant to another unit of the same merchant, i.e. services are provided within the framework of the merchant.

2.1 The merchant shall submit to the Regulator the original of the draft universal postal service tariff documents (in paper format or signed according to the procedures specified in legal acts with an electronic signature) and the electronic form (if the original of the draft tariff has been submitted in paper format). The merchant shall, together with the draft tariff, submit the justification for the costs forming the tariff referred to in the calculation of the draft tariff and the documents substantiating the abovementioned costs in accordance with the regulations of the Regulator for the justification of the costs forming the tariff.

[*13 August 2018*]

3. The merchant shall use the rate of return on capital for determining the costs of capital, and such rate shall be determined in accordance with the methodology for the accounting and calculation of capital costs determined by the Regulator. The merchant who participates in the tender shall use the last return rate on capital determined by the Regulator. If the Regulator has not determined the rate of return on capital for the period when the draft tariff submitted by the merchant enters into effect, the merchant shall use the last return rate on capital determined by the Regulator.

[*13 August 2018; 29 August 2022*]

**II. Cost Allocation and Calculation Principles and Tariff Calculation**

4. Cost allocation shall be based on a direct or indirect causal relationship. If the merchant cannot directly allocate the costs, it shall use the methodology of activities where each step of cost allocation is determined by taking into account the causal relationship.

5. The merchant shall break down the costs as follows in its internal accounting system:

5.1. direct costs that can be directly allocated to particular postal services;

5.2. indirect costs that cannot be directly allocated to particular postal services:

5.2.1. if it is possible, costs shall be allocated based on a direct analysis of the incurrence of costs;

5.2.2. when direct analysis is not possible, indirect costs shall be distributed based on an indirect linkage to another cost category or group of cost categories for which a direct allocation is possible (indirect linkage is based on comparable cost structures);

5.2.3. where neither direct, nor indirect cost allocation is possible, costs shall be allocated based on the general distribution which is calculated using the proportion of all directly or indirectly allocated costs for each service.

6. The merchant shall calculate the tariff of the universal postal service by aggregating the operating costs and costs of capital financing allocated to the universal postal service. The universal postal service tariff calculated in accordance with this methodology and approved by the Regulator shall be the maximum limit of the price of the universal postal service offered by the merchant, and it shall be uniform throughout the territory of the Republic of Latvia, at the same time ensuring profitability for the activities of the merchant.

7. A provider of the universal postal service shall use the annual statement of the provider of the universal postal service which has been drawn up in accordance with the legal acts as the basis for the calculation of the costs of postal services and accounting separation.

8. The merchant who participates in the tender and has not previously provided the universal postal service shall calculate the expected total annual costs for the provision of the universal postal service and use these costs as the basis for the calculation of universal postal service costs and accounting separation. The merchant who participates in the tender and has not previously provided the universal postal service shall calculate the expected total costs for the universal postal service based on operating costs and fixed assets and intangible long-term investments that are needed by the merchant to provide the universal postal service in conformity with the quality requirements laid down by the Regulator to the extent specified in tender regulations.

**III. Operating Costs**

9. The merchant shall, in its internal accounting system, break down the operating costs in the following cost groups:

9.1. customer servicing at the point for the provision of postal services;

9.2. collection and acceptance of postal items;

9.3. sorting of postal items;

9.4. transportation of postal items;

9.5. delivery of postal items;

9.6. costs exceeding costs needed for the effective provision of the universal postal service;

9.7. spare capacity;

9.8. indirect costs;

9.9. commitments;

9.10. undistributed profit;

9.11. transfer payment;

9.12. depreciation.

10. The merchant is entitled to expand and form the necessary cost subgroups in conformity with the internal accounting system of the merchant.

11. The costs included in the cost groups may be directly or indirectly allocated by the merchant to the postal services belonging to the universal postal service, postal services for special tariffs, other postal services and other services. The merchant shall make a detailed breakdown of operating costs and allocation of such costs in conformity with the example for the breakdown of service operating costs and allocation thereof (Annex 1).

**IV. Revenue Allocation**

12. A provider of the universal postal service shall allocate revenues of the provision of the universal postal service directly to the relevant universal postal service. If a direct allocation of revenues is not possible, then the provider of the universal postal service shall allocate revenues of the provision of the universal postal service based on an indirect causal relationship.

13. A provider of the universal postal service shall separate turnover of the universal postal service from turnover of postal services for special tariffs, other postal services and other services.

**V. Costs of Capital Financing**

[*13 August 2018*]

14. A provider of the universal postal service shall calculate the cost of capital by applying the rate of return on capital to the value of the used capital determined at the end of the previous calendar year.

15. The merchant who participates in the tender and in the previous calendar year has not provided the universal postal service shall calculate the cost of capital financing by applying them to the expected value of the capital which is necessary to provide the universal postal service in conformity with the quality requirements laid down by the Regulator to the extent laid down in tender regulations.

16. [13 August 2018]

17. [13 August 2018]

18. [13 August 2018]

19. [13 August 2018]

20. The merchant shall make detailed allocation of fixed assets and intangible long-term investments in conformity with the example for the allocation of fixed assets and intangible long-term investments (Annex 2).

**VI. Accounting of Current Costs**

21. In order to apply and allocate depreciation, the merchant shall include the following key indicators in its internal accounting system:

21.1. the total amount of long-term intangible investments and fixed assets as a source of profit;

21.2. the planned period during which the operation of fixed assets is economically viable;

21.3. the expected residual value of fixed assets at the end of the period of their economically viable use.

22. The merchant shall calculate the depreciation value by taking into account the international accounting standards and methods adopted by the merchant.

23. For determining the used capital and depreciation included in the cost calculation, the merchant shall revaluate fixed assets by using one of the following methods:

23.1. acquisition value less depreciation (financial statement value);

23.2. acquisition value indexed by inflation less depreciation;

23.3. the remaining replacement cost (replacement cost, taking into account the current prices and possible changes in the quality of fixed assets, less the actual depreciation determined by an expert);

23.4. market value;

23.5. recoverable amount which is the highest of the net sales value of fixed assets or of use value (discounted cash flows from the use of fixed assets).

24. At its own discretion, the merchant may use the following principles for the current cost accounting:

24.1. working capital maintenance which is understood as the ensuring of the merchant’s constant liquidity at the beginning and at the end of the reporting year;

24.2. financial capital maintenance which is understood as the maintenance of the merchant’s financial capital at its present value. Capital shall be considered to be maintained, if at the end of the reporting year it the same or greater than at the beginning of the period.

25. The merchant shall maintain the working capital based on the following principles:

25.1. merchant’s production capacity is maintained constant or increased;

25.2. depreciation costs shall be re-determined by recalculating current costs of fixed assets;

25.3. the merchant shall determine the total value of fixed assets used in the calculation of costs differently from the accounting value of fixed assets, by taking into account changes in the price of fixed assets and technology: in order to revaluate fixed assets, specific price indices shall be applied to the total current value of fixed assets (the merchant may also use other well-defined and transparent procedures);

25.4. revenues needed to ensure the expected profit is the total amount of capital costs, operating costs, current depreciation value and portion of overall costs;

25.5. in order to correctly calculate the value of fixed assets, the merchant shall calculate annual depreciation value based on the assessment of the new fixed assets, taking into account price and useful life thereof.

26. The merchant shall maintain financial capital based on the following guiding principles:

26.1. the merchant shall revaluate fixed assets, calculate additional depreciation and provisions in accordance with the methods laid down in Paragraph 21 of this methodology, while the profit and losses arising from the difference between the specific and general inflation of fixed assets and affecting merchant’s equity capital shall be taken into account separately;

26.2. changes in the value of merchant’s equity capital shall be determined according to inflation;

26.3. revenues needed to ensure the expected profit is the total amount of capital costs, operating costs, current depreciation value and the portion of overall costs or values that covers overall costs.

**VII. Transfer Payment**

27. The merchant shall apply a transfer payment, if the merchant uses the universal postal services, other postal services or other services to provide the universal postal service, postal services for special tariffs, other postal services or other services.

28. In transfer payments, the merchant shall account and allocate costs to the extent of the tariff of the universal postal service, other postal service or price of other services.

**VIII. Merchant’s Report**

29. A provider of the universal postal service shall, within seven months after the end of the current reporting year, and also when submitting the draft universal postal service tariff, draw up and submit to the Regulator a report containing the following information:

29.1. profit and loss calculation;

29.2. balance sheet;

29.3. review of the scope of the provided universal postal service and the associated costs.

30. In order to ensure cost-based, transparent and equitable determination of universal postal service tariffs, a provider of the universal postal service shall, in its report to the Regulator, include information on the universal postal service, postal services for special tariffs, other postal services and other services.

31. The report of a provider of the universal postal service submitted to the Regulator shall be used by the Regulator for regulating the universal postal service tariffs provided by the provider of the universal postal service.

**IX. Final Provisions**

32. A provider of the universal postal service who has not previously provided the universal postal service shall, within one year after the determination of commitments to provide the universal postal service, develop a cost accounting system that corresponds to this methodology.

33. Starting from 1 January 2014, the word “lats” in Paragraph 19 of this methodology shall be replaced by the word “euros”.

34. The weighted average rate of the loans received by the merchant specified in the capital financing cost calculation which is included in the report for 2013 drawn up by the provider of the universal postal service shall not exceed the weighted average annual rate of long-term loans issued in lats which is determined by the Central Statistical Bureau for the respective reporting period.

35. A draft tariff which has been calculated and submitted to the Regulator before the day when the euro is introduced shall be drawn up and calculated in lats. Starting from the day when the euro is introduced, a provider of the universal service shall convert a draft tariff calculated in lats, the evaluation of which has not been completed, into euro in conformity with the exchange rate determined by the Council of the European Union and the principles of rounding laid down in Section 6 of the Law on the Procedure for Introduction of Euro (hereinafter – the converted draft tariff). The total sum of costs of the converted draft tariff is formed by the converted costs positions included in the calculation of the draft tariff and their total sum shall not exceed the total sum of costs of the draft tariff under evaluation in lats which has been converted into euros in conformity with the exchange rate determined by the Council of the European Union and the principles of rounding laid down in Section 6 of the Law on the Procedure for Introduction of Euro. A draft tariff which has been calculated and submitted to the Regulator on the day when the euro is introduced or afterwards shall be prepared and calculated in euros. Such currency shall be indicated in the justifying documents which is used in drawing up the documents in conformity with the accounting requirements and the Law on the Procedure for Introduction of Euro.

36. In the report specified in Paragraph 29 of this methodology and the documents justifying it, a provider of the universal service shall indicate such currency which is used in drawing up the documents in conformity with the accounting requirements and the Law on the Procedure for Introduction of Euro.

36.1 The rate of return on capital required for the preparation of the draft tariff the date of coming into effect of which is planned until 31 December 2018 shall be determined by the Regulator upon request of the provider of the universal postal service. This rate shall be calculated in accordance with the methodology for calculating the rate of return on capital determined by the Regulator.

[*13 August 2018*]

37. Decision No. 1/4 of the Public Utilities Commission of 17 September 2009, Universal Postal Service Tariff Calculation Methodology (*Latvijas Vēstnesis*, 2009, No. 151), is repealed.

38. This methodology shall come into force on the day following its publication in the official gazette *Latvijas Vēstnesis*.

Acting in the capacity of the chairperson of the Public Utilities Commission

Member of the Board G. Zeltiņš

**Annex 1**

Decision No. 1/28 of the Public Utilities Commission

11 October 2013

**Example of the Breakdown of Service Operating Costs and Allocation Thereof**

|  |  |  |
| --- | --- | --- |
| Cost group | Costs included in the cost group | Types of services to be covered by the costs included in the cost group |
| Provision of customer service at the point for provision of postal services | Work remuneration and other personnel expenditures incurred by the merchant  Machinery and equipment  Infrastructure maintenance costs  Raw materials and materials | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Collection of postal items | Work remuneration and other personnel expenditures incurred by the merchant  Transport  Maintenance of post boxes | Universal postal services (by the postal services)  Postal services for special tariffs (via the postal services)  Other postal services (via the postal services) |
| Transportation of postal items | Work remuneration and other personnel expenditures incurred by the merchant  Transport  Machinery and equipment  Infrastructure maintenance costs | Universal postal services (via the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Sorting of postal items | Work remuneration and other personnel expenditures incurred by the merchant  Machinery and equipment  Infrastructure maintenance costs  Raw materials and materials | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services) |
| Delivery of postal items | Work remuneration and other personnel expenditures incurred by the merchant  Transport  Machinery and equipment  Infrastructure maintenance costs | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Costs exceeding costs needed for the of provision of efficient universal postal service | Justified or related to legal acts  Historical aspect | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Spare capacity | Work remuneration and other personnel expenditures incurred by the merchant  Machinery and equipment  Infrastructure maintenance costs  Transport | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Indirect costs | Work remuneration and other personnel expenditures incurred by the merchant  Machinery and equipment  Infrastructure maintenance costs  Transport  Office expenditures  Settlements for international mail carriage and shipments  Administrative costs | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Commitments | Discount applied to universal postal services, other postal services, other services  Credit interest  Delayed international settlements  Compensation of the delayed revenues from international letter-post items with tariffs of other postal services | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Undistributed profit | Capital replacement costs.  Expected profitability | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Transfer charges | Costs of the provision of the universal postal service, other postal services or other services to another unit of the merchant | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Depreciation |  | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |

Acting in the capacity of the chairperson of the Public Utilities Commission

Member of the Board G. Zeltiņš

**Annex 2**

Decision No. 1/28 of the Public Utilities Commission

11 October 2013

**Example for the Allocation of Fixed Assets and Intangible Long-term Investments**

|  |  |  |
| --- | --- | --- |
| Cost group | Fixed assets and intangible long-term investments included in the cost group | Types of services to be covered by fixed assets and intangible long-term investments included in the cost group |
| Buildings and structures | Post offices  Other buildings and structures | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Transport vehicles  Machinery and equipment | Road transport  Postal technological and other equipment | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Computers and computer network | Computers  Computer network | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Land | Land | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Office equipment and devices | Furniture  Office equipment | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Other fixed assets | Other fixed assets | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |
| Intangible long-term investments | Licenses  Computer software | Universal postal services (by the postal services)  Postal services for special tariffs (by the postal services)  Other postal services (by the postal services)  Other services |

Acting in the capacity of the chairperson of the Public Utilities Commission

Member of the Board G. Zeltiņš