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COMMISSION STAFF WORKING DOCUMENT

Analysis of the recovery and resilience plan of Latvia

Accompanying the document

Proposal for a COUNCIL IMPLEMENTING DECISION

**amending Implementing Decision (EU) (ST 10157/21 INIT; ST 10157/21 ADD 1) of 13
July 2021 on the approval of the assessment of the recovery and resilience plan for
Latvia**

{COM(2023) 729 final}

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1. EXECUTIVE SUMMARY

In 2022, Latvia's economic resilience was tested by supply chain disruptions, a surge in energy prices and high inflation. In light of the drastic changes in the economic and geopolitical situation due to Russia's unprovoked invasion of Ukraine, Latvia submitted on 26 September 2023 a modified Recovery and Resilience Plan (RRP), together with a REPowerEU chapter. Latvia proposed modifications to its RRP pursuant to two legal bases. In accordance with Article 21(1) of Regulation (EU) 2021/241, Latvia considered the RRP to be partially no longer achievable due to objective circumstances and made a reasoned request to the Commission to make a proposal to amend the Council Implementing Decision. Finally, in accordance with Article 21c of Regulation (EU) 2021/241, Latvia included a REPowerEU chapter in its RRP.

The modifications submitted by Latvia under Article 21(1) of Regulation (EU) 2021/241 affect 35 measures of the initial plan. In addition, errors of a clerical nature that do not reflect the content of the initial plan submitted by Latvia have been identified in the text of the Council Implementing Decision, and Latvia proposed corrections.

The REPowerEU chapter contains measures to help address the key energy challenges that Latvia is currently facing. The proposed new reform aims at transforming the national energy sector by: (a) promoting energy communities, (b) promoting renewable energy self-consumption and self-generation, (c) optimising the use of existing distribution and transmission networks, and (d) improving the conditions for the uptake of sustainable biomethane. The reform contributes to addressing energy poverty by promoting energy communities. The investments proposed in the REPowerEU chapter are aimed at increasing the capacity of the electricity grid, accommodating the integration of renewable energy sources (RES), and accelerating the synchronisation of the national electricity network with the Union electricity grid, in line with the country-specific recommendation on energy (CSR 4 in 2023). The investments are also aimed at digitalising, modernising and securing electricity transmission and distribution networks, as well as at increasing the uptake of sustainable biomethane. The measures are expected to contribute to the REPowerEU objectives to enable diversification of supply in the interest of the Union as a whole, and to reduce the overall dependence on fossil fuels, by promoting the uptake of sustainable biomethane and by increasing the share and accelerating the deployment of renewable energy. Investment 7.2.i. in security and stability of energy supply, and synchronisation with the Continental Europe network, and investment 7.3.i. in upgrading, digitalising and securing the electricity transmission and distribution network have a cross-border dimension.

Based on the assessment of the submitted modification and the REPowerEU chapter, the Latvian modified plan receives an A-rating on all criteria (including the two additional criteria for the REPowerEU chapter), except for costing, where the plan receives a B-rating (unchanged from the assessment of the initial plan) (see table 1).

Table 1: Summary of the assessment of the Plan under the RRF criteria

| (1) Balanced Response | (2) CSRs | (3) Growth, jobs... | (4) DNSH | (5) Green target | (6) Digital target | (7) Lasting impact | (8) M & T | (9) Costing | (10) Control Systems | (11) Coherence | (12) REPowerEU | (13) Cross- border |
|-----------------------------|-------------|---------------------------|-------------|------------------------|--------------------------|--------------------------|--------------|----------------|----------------------------|-------------------|-------------------|--------------------------|
| A | A | A | A | A | A | A | A | B | A | A | A | A |

2. OBJECTIVES OF THE MODIFICATION OF THE PLAN

In 2022, Latvia faced a considerable general price increase compared to 2021, and its economy was hit harder than that of most EU Member States due to the Russia's unprovoked military aggression against Ukraine since 24 February 2022. As highlighted in the 2023 Country Report¹, in 2022 Latvia's energy price inflation reached 48.8%, significantly exceeding the 37.0% achieved in the euro area. Furthermore, as energy products account for a large share of Latvia's consumer spending, the impact of energy price hikes on consumer price inflation was greater than in other countries. Inflation in the construction sector reached 19.7% in 2022. Besides the energy price shock, the supply of metal and timber products, as well as fertilisers, which were previously imported from Russia and Belarus, has been disrupted, leading to a spike in their prices and affecting in particular the agriculture and construction sectors.

Pursuant to Article 21(1) of the RRP Regulation, Latvia has justified the modification of 35 measures due to objective circumstances. Latvia requested the amendment of several existing measures of the RRP, considering that they were no longer fully achievable based on objective circumstances, such as high inflation experienced in 2022, as well as supply chain disruptions. In addition, Latvia proposes to modify measures to reflect the existence of manifestly better alternatives to achieve the initial ambition. In addition, several targets have been delayed due to a lack of demand or the need for longer procurement procedures than initially foreseen.

Latvia's modified RRP adds the REPowerEU chapter to the original plan, pursuant to Article 21c of the RRF Regulation and is a strong response to the geopolitical and energy challenges that the European Union has faced since the beginning of 2022. Latvia has one of the highest shares of renewable energy in the EU, although this share stagnated between 2020 and 2021. Latvia would benefit from accelerating its efforts in the uptake of wind and solar power, which is the most viable and long-term solution to increase the share of renewables. Latvia's RRP already includes measures to remove regulatory barriers to the deployment of onshore wind energy and, with the addition of the REPowerEU chapter, Latvia will invest in the electricity transmission and distribution networks so to accommodate a higher share of variable renewable energy in the near future. The REPowerEU chapter also includes measures aimed at improving the flexibility of the power system (demand response and storage) and introducing new frameworks for energy communities and self-consumers. It also aims at accelerating Latvia's synchronisation with the EU electricity grid, a necessary development in the aftermath of Russia's unprovoked aggression against Ukraine. Moreover, the REPowerEU chapter includes an investment in a sustainable biomethane injection point, a first necessary step to increase the uptake of this resource at national level. Thus, the measures proposed in the REPowerEU chapter will contribute to Latvia's green transition and help address the current energy-related challenges as identified by the country-specific recommendations for Latvia in the context of European Semester 2023 cycle.

The main elements of the modified RRP and REPowerEU chapter are listed below by component:

¹ SWD (2023) 614 final

Component 1: Climate change and environmental sustainability:

1.1.1.1.i. Competitive rail passenger transport within the common public transport system of the city of Riga: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 3, increasing the length of the electrified rail network to 100 km and, at the same time, removing the reconstruction of a station from the list of investments. It has also proposed to amend the target with sequential number 4, replacing seven electric trains with a battery electric train charging infrastructure including electrification of rail lines and construction of a power substation due to construction costs and delays in production supply, and the new certification procedure of electric battery trains.

1.1.1.2.i. Environmentally friendly improvements to the public transport system of the city of Riga: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 5, reducing the number of purchased electric transport units from 21 to 17 due to increased costs resulting from high inflation. At the same time, Latvia has proposed to make it explicit that the construction of seven bus charging stations is part of the investment.

1.1.1.3.i. Complete bike riding infrastructure: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 6, reducing the length of built or renovated cycle infrastructure in the cities of Riga and Pieriga from 60 km to 52 km, as the construction costs have significantly increased, and high inflation for material construction caused a negative impact.

1.2.1.2.i. Increasing energy efficiency in business, in the form of a combined financial instrument: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 12, increasing the total amount of approved projects from EUR 72 million to EUR 108 million taking into account the full cost of the investment.

1.2.1.4.i. Improving the energy efficiency of public sector buildings, including historical buildings: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 18, downscaling the reduction of primary energy consumption in public buildings with improved energy efficiency from 4 456 MWh/year to 3 875 MWh/year due to increased construction costs.

1.3.1.2.i. Investments in flood risk reduction infrastructure: On the basis of Article 21(1) of Regulation 2021/241, Latvia proposed to amend the target with sequential number 26 due to increased construction costs. The amendment is two-fold. On the one hand, the original formulation of the target in terms of hectares of protected areas is shifted to a formulation in terms of completion of flood risk protection projects. On the other hand, the original ambition of the target is downscaled and now covers the completion of 21 projects, including pumping stations, protective dikes and one canal (the original target covered 59 000 hectares).

Component 2: Digital transformation:

2.1.1.1.i. Modernisation of governance and digital transformation of services, including the business environment; 2.1.2.1.i. Centralised Platforms and Systems for Governance; 2.1.3.1.i. Access to data, sharing and analytics: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to redistribute funding across these measures resulting in the amendment of the targets with sequential numbers 29, 30, 32, 33, 34 and 39 due to unforeseen changes in the supply of digital services.

2.1.2.2.i. Latvian national federated cloud: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the targets with sequential numbers 35 and 36, modifying the technological solution for the implementation of modern IT architecture and cloud solutions in the public administration, thus leading to a better alternative for implementing the measure.

2.2.1.r. Creating the full cycle of business digital transformation support with regional coverage: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestone with sequential number 42, broadening the target group of the reform in order to reach wider digital transformation of the economy, thus leading to a better alternative for the implementation of the measure.

2.2.1.1.i. Support for the establishment of Digital Innovation Hubs and Regional Focal Points: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the targets with sequential numbers 43 and 44, and to introduce a new milestone with sequential number 44a. The proposal foresees broadening the target group of the reform in order to reach wider digital transformation of the economy. In addition, Latvia has proposed to reduce the numerical value of the targets and amend their description to provide a more appropriate type of measurement reflecting the main aim of the measure. Overall, the change would lead to a better alternative for the implementation of the measure.

2.2.1.2.i. Support for the digitisation of processes in commercial activities: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the targets with sequential numbers 45 and 46, broadening the target group of the investment in order to reach wider digital transformation of the economy, as well as specifying the parties of the grant agreement for both targets. Overall, the change would lead to a better alternative for the implementation of the measure.

2.3.1.r. Development of a sustainable and socially responsible support framework for adult learning: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to adjust the description of the milestones with sequential numbers 55, 57 and 58 as more effective solution – drafting a single regulatory framework - has been identified and a better solution to co-implement existing and planned training schemes ensured. These changes would lead to a better alternative for the implementation of the measure.

2.3.1.2.i. Development of digital skills of enterprises: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to lower targets with sequential numbers 63 and 64 concerning digital skills of enterprises due to increased costs of trainings.

2.3.1.4.i. Development of the approach to individual learning accounts; On the basis of Article 21(1) of Regulation 2021/241, Latvia proposed to lower the intermediate target with sequential number 66 due to unexpected delays in the procurement process.

2.3.2.1.i. Digital skills for citizens, including young people: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the intermediary target with sequential number 71, as it is no longer achievable due to unforeseen regulatory bottlenecks.

2.3.2.3.i. Closing the digital divide for socially vulnerable pupils and educational institutions: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to

delete the intermediary target with sequential number 78 due to unexpected delays in the procurement process, which have led to delays in the implementation of the measure.

2.4.1.1.i. Investment construction of passive infrastructure along the Via Baltica corridor for 5G coverage; 2.4.1.2.i. Broadband or very high capacity network “last mile” infrastructure development: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to delete the target with sequential number 82, related to the Via Baltica corridor project, due to compatibility issues with State aid rules that could not have been fully foreseen in the planning phase. In light of this, Latvia has proposed to redistribute the underlying budget to the measure related to the development of broadband or very high-capacity network “last mile” infrastructure, resulting in a more ambitious target with sequential number 83.

Component 3: Reduction of inequality:

3.1.1.4.i. Establishment of a Funding Fund for the construction of low-rented dwellings: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 102, by decreasing the number of apartments related to approved projects by one third due to construction costs, which have increased by 50% due to supply chain disruptions and high inflation for construction materials.

3.1.1.5.i. Development of infrastructure and equipment of educational institutions: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to increase the final target with sequential number 106 from 20 to 21 schools, by using the financial resources released by lowering the target with sequential number 108 of measure 3.1.1.6.i.

3.1.1.6.i. Purchase of zero-emission vehicles for the performance of municipal functions and related services: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to reduce the target with sequential number 108, as the final target to purchase 15 school buses could be reached with a lower amount of RRF funding than initially planned. Latvia has proposed to reallocate the released amount to measure 3.1.1.5.i.

3.1.2.1.i. Access to Public Services and Employment for Persons with Disabilities: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to postpone three milestones with sequential numbers 113, 115 and 116, and two targets with sequential numbers 114 and 117 on retrofitting to improve accessibility of public buildings and housing of persons with disabilities, due to of achieving supply chain disruptions that have caused delays and raised costs in the construction sector. To maintain the ambition of the final target, Latvia has proposed to mitigate the increase in costs by using the available financial allocation.

3.1.2.2.i. Development of a forecasting tool: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestones with sequential numbers 119 and 120 on the development of forecasting tool by postponing them, due to the difficulties encountered during the procurement process.

3.1.2.3.i. Resilience and continuity of the long-term social care service: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 122 and 123 on the provision of new long-term care services due to supply chain disruptions that have caused delays and raised costs in the construction sector. Latvia has also proposed to extend the implementation timeline, reaching the final target of the measure two and a half years later. In order to keep the initial target of providing 852 new places close to

family, Latvia has proposed to build less buildings with more capacities. In addition, Latvia has proposed to reduce the number of agreements with municipalities from 18 to 17, to allow the possibility of constructing more buildings in Riga. Finally, to compensate for the increased construction costs and maintain the ambition of the measure, Latvia has proposed to use the available financial allocation to increase the total budget of the project.

3.1.2.4.i. Synergistic development of social and occupational rehabilitation services for the promotion of the resilience of people with functional disabilities: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestones with sequential numbers 125 and 126 because they are no longer achievable within the timeline estimated in the original RRP due to unforeseen issues encountered with the execution of the procurement. In addition, Latvia has proposed to amend the milestones with sequential numbers 125 and 126 due to high inflation. Latvia has proposed to use EUR 0.5 million of the available financial allocation to increase the total budget of the project.

3.1.2.5.i. Labour market participation of unemployed, jobseekers and people at risk of unemployment: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestone with sequential number 128, as the measure's objective can be achieved with a better alternative. Latvia has claimed that a single digital tool for skills assessment, where two skills tests would be available, would be better for user convenience, instead of several platforms.

Component 5: Economic transformation and productivity reform

Investment 5.1.1.1.i. Development and continuous operation of a fully-fledged innovation system governance model: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the target with sequential number 155 and the milestone with sequential number 156. A better alternative has been identified to revise the innovation system governance model by putting Strategic Steering groups as the key coordinating bodies for each area of research and innovation strategies for smart specialization (RIS3 area), instead of officials from the Ministry of Economy and Latvian development agency.

Investment 5.1.1.2.i. Support instrument for research and internationalization: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestone with sequential number 157 and the target with sequential number 158. The purpose is to implement better alternatives in order to ensure effective support in developing innovation clusters. The original plan was to create one competency centre per 'RIS3 smart specialization area' (of which there are five); however, after a consultation with stakeholders, it became clear that some of the 'natural clusters' did not match well with the categories of specialization areas. Thus, Latvia opted for a model where the number of clusters would not be fixed, but they would rather be selected in an open call based on the merit of the proposals. This would give the system more flexibility and a way to accommodate the clusters closer to how the businesses have 'naturally' clustered. While the measure improves the coordination among the stakeholders, the challenges stemming from system fragmentation remain pertinent. Moreover, unlike originally intended, separate calls would be organised for i) R&D support, ii) networking support, and iii) IPCEI participation.

Component 6: Rule of law

Investment 6.1.2.1.i. Linking railway X-ray equipment to BAXE and use of artificial intelligence for the analysis of rail freight scanning: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestones with sequential numbers 176 and 177, because supply chain disruptions have caused delays in connecting the old customs cargo database (BAXE) to the new customs database, and that subsequently affected the introduction of the new cargo image analysis. On this basis, Latvia has proposed to extend the implementation timeline.

Investment 6.1.2.3.i. Improvement of customs control of received postal items at airport customs control point: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestone with sequential number 180 because of delays in procurement. On this basis, Latvia has proposed to extend the implementation timeline of the milestone.

Investment 6.1.2.4.i. Creation of infrastructure for the performance of control services in Kundziņsala: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestones with sequential numbers 181, 182, 183, 184 and 185 because of delays in procurement, high inflation in the construction sector and supply chain disruptions. On this basis, Latvia has proposed to extend the implementation timeline of the milestones, as well as amend the description of the milestones with sequential numbers 183 and 185, as a final product of the measure is no longer deliverable.

Investment 6.3.1.1.i. Modernisation of public administration and Investment; 6.3.1.2i. Professionalisation of public administration and administrative and capacity building: On the basis of Article 21(1) of Regulation 2021/241, Latvia has proposed to amend the milestones with sequential numbers 200 and 202. A better alternative is identified for the approval of the competence framework for the public administration. On this basis, Latvia has proposed to amend the qualitative indicators of the original RRP.

Component 7: REPowerEU chapter (new)

Reform 7.1.r. Transforming the national energy sector: The objective of this measure is to reduce the overall reliance on fossil fuels and to develop the potential to become a green energy exporting country. The reform is expected to (i) introduce a regulatory framework laying down the conditions and procedures for the registration and operation of energy communities, and supporting vulnerable groups of society (ii) introduce a regulatory framework for self-consumers and owners of micro-generator facilities, (iii) lay down conditions for a more optimised use of existing transmission and distribution networks, and (iv) lay down conditions for increasing the uptake of sustainable biomethane to be injected into the existing natural gas supply network.

Investment 7.2.i. Security and stability of energy supply, and synchronisation with the Union grid: The objective of the investment is to increase the security and stability of energy supply, and to support the synchronisation of the national electricity grid with the Continental Europe electricity networks. Under this investment measure, a new 60 MW Battery Energy Storage System (BESS) will be installed. Moreover, the investment also encompasses ancillary activities aimed at enhancing the cybersecurity of critical infrastructures and ensuring stable operation of the transmission network after the synchronisation, in view of a greater integration of renewable energy sources (RES) in the national grid.

Investment 7.3.i. Upgrading, digitalising and securing the electricity transmission and distribution networks: This investment consists of sub-investments:

- the first is aimed at increasing the capacity of the national electricity grid to accommodate greater integration of variable renewable energy.
- the second is aimed at modernising energy transmission lines to increase the security and stability of supply. The sub-measure will result in the replacement of at least 150 km of existing medium-voltage overhead power lines with cable lines.
- the third is aimed at digitalising the energy distribution network for a more efficient and flexible management of energy flows. The sub-measure will implement an advanced smart distribution management solution (ADMS) and provide for the acquisition and installation of remotely controlled medium voltage switches on cable lines in transformer substations and on lines at different switching points.
- the fourth is aimed at completing two studies that are expected to contribute to Latvia's development towards becoming a green energy exporting country, and at carrying out an Environmental Impact Assessment for an electricity transmission line project between Ventspils, Brocēni and Telšiai.

Investment 7.4.i. Increasing the uptake of sustainable biomethane: This measure is aimed at increasing the uptake of sustainable biomethane, in line with the revised Renewable Energy Directive 2018/2001/EU. The investment under this measure will provide for the construction of a new regional sustainable biomethane injection point (BIP), and the acquisition and installation of an IT solution for the management of the new regional BIP, including effective methane and biomethane leak detection and prevention solution.

In addition, errors of a clerical nature have been identified in the text of the Council Implementing Decision and have been corrected.

Table 2: New and modified components and associated costs.

| Component | Status | Costs (EUR million) |
|--|----------|---------------------|
| Component 1: Climate change and environmental sustainability | Modified | 676,207 |
| Component 2: Digital transformation | Modified | 361,293 |
| Component 3: Reduction of inequality | Modified | 378,501 |
| Component 4: Health | Modified | 181,5 |
| Component 5: Economic transformation and productivity reform | Modified | 196 |
| Component 6: Rule of law | Modified | 37 |
| Component 7: REPowerEU chapter | New | 134,743 |

Other elements not covered by assessment criteria

The description of the consistency with other programmes, consistency with the challenges and priorities identified in the most recent euro area recommendation, administrative organisation, gender equality and equal opportunities for all, consultation process, Member State's security self-assessment for digital investments, communication strategy as reflected in the previous Staff Working Document (2021) 162 final remains valid.

Latvia has explained that measures included in the REPowerEU chapter will have a positive impact on equal opportunities for all. Namely, the reform 7.1.r. “Transforming the national energy sector” contributes to addressing energy poverty by introducing provisions for local and regional authorities to direct a part of the amount of electricity produced in the energy community, or the economic benefit obtained from it, to vulnerable groups of society as part of the regulatory framework for energy communities.

State aid and competition rules fully apply to the measures funded by the Recovery and Resilience Facility. Union funds channeled through the authorities of Member States, like the RRF funds, become State resources and can constitute State aid. When this is the case and State aid is present, these measures must be notified and approved by the Commission before Member States can grant the aid, unless those measures are covered by an existing aid scheme or comply with the applicable conditions of a block exemption regulation, in particular the General Block Exemption Regulation (GBER) declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 TFEU. When State aid is present and it requires notification, it is the duty of the Member State to notify State aid measures to the Commission before granting them, in compliance with Article 108(3) TFEU. In this respect, the State aid analysis carried out by Latvia in the RRP cannot be deemed a State aid notification. In as far as Latvia considers that a specific measure contained in the RRP entails de minimis aid or aid exempted from the notification requirement, it is the responsibility of Latvia to ensure full compliance with the applicable rules.

3. SUMMARY OF THE ASSESSMENT OF THE PLAN

3.1. Comprehensive and adequately balanced response to the economic and social situation

Latvia’s modified RRP, along with the new REPowerEU chapter, includes a balanced set of reforms and investments contributing to the Union’s economic, social and territorial cohesion, referring to the six pillars of Article 3 of the Regulation (EU) 2021/241. The modifications of the plan together with the new REPowerEU chapter, only impact the assessment of the contribution to pillar 1 on green transition. For the other pillars, the nature and extent of the proposed modifications of the RRP do not affect the outcome of the Commission’s assessment of the initial plan. The modified RRP covers, in a comprehensive manner, the six pillars (see table 3). All pillars are covered by at least one component, while some components contribute to several pillars. Allocations to the green and digital transitions (of respectively 42% and 23%) comply with the targets of the RRF Regulation (of respectively 37% and 20%).

Table 3: Coverage of the six pillars of the Facility by the new or modified RRP components

| | Green transition | Digital transformation | Smart, sustainable & inclusive growth | Social and territorial cohesion | Health, and economic, social and institutional resilience | Policies for the next generation |
|--|------------------|------------------------|---------------------------------------|---------------------------------|---|----------------------------------|
| Component 1: Climate change and environmental sustainability | • | | • | | | |

| | Green transition | Digital transformation | Smart, sustainable & inclusive growth | Social and territorial cohesion | Health, and economic, social and institutional resilience | Policies for the next generation |
|--|------------------|------------------------|---------------------------------------|---------------------------------|---|----------------------------------|
| Component 2: Digital transformation | | ● | ● | | | ● |
| Component 3: Reduction of inequality | | ○ | | ● | | ● |
| Component 4: Health | | | | ● | ● | |
| Component 5: Economic transformation and productivity reform | | | ● | | | ● |
| Component 6: Rule of law | | ○ | | | ● | |
| Component 7: REPowerEU chapter | ● | | | | | |

Key: “●” investments and reforms of the component significantly contribute to the pillar; “○” the component partially contributes to the pillar.

Pillar I: Green transition

Latvia’s modified RRP, including the new REPowerEU chapter, has a strengthened focus on the green transition. The overall ambition of component 1 of the original RRP has been preserved and all the measures included in the REPowerEU chapter are expected to contribute to the mentioned transition by reducing reliance on fossil fuels and by accelerating the deployment of renewable energy sources.

Taking into consideration all reforms and investments envisaged by Latvia, its modified recovery and resilience plan continues to represent, to a large extent, a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars referred to in Article 3 of the RRF Regulation, taking the specific challenges and the financial allocation of Latvia into account. This would warrant a rating of A under criterion 2.1 in Annex V to the RRF Regulation.

3.2. Link with country-specific recommendations and the European Semester

Overall, Latvia’s modified RRP represents a comprehensive and adequate response to the economic and social challenges faced by Latvia. Latvia continues to make progress in tackling the previously identified challenges, notably through the implementation of measures included in the RRP. The modified RRP maintains the six components as the original plan and, in addition, includes a new reform and three new investments in the REPowerEU chapter.

The 2022 and 2023 CSRs invited Latvia to take action in five main policy areas – taxation, social protection and healthcare, access to finance and energy. Latvia was recommended to broaden taxation, including of property and capital, (2022.1.4., 2023.1.4.), as well as improve the adequacy of healthcare (2022.1.5., 2023.1.5) and social protection (2022.1.6., 2023.1.6.). Latvia was also recommended to improve the access of small- and medium-sized enterprises (SMEs) to finance (2022.3., 2023.3.). Moreover, Latvia was recommended to reduce overall reliance on fossil fuels (2022.4.1., 2023.4.1.), accelerate the deployment of renewables

(2022.4.2., 2023.4.2.), ensure sufficient interconnection capacity (2022.4.2., 2023.4.4.), and reduce overall energy consumption through energy efficiency measures (2022.4.4, 2023.4.3.). Latvia was also invited to step up policy efforts aimed at providing and acquiring skills and competences necessary for the green transition (2023.4.5.). As the maximum financial contribution for Latvia has been adjusted downwards, the 2022 and 2023 structural recommendations not related to energy challenges are not considered in the overall assessment.

The REPowerEU chapter is expected to contribute to addressing energy-related 2022 and 2023 country-specific recommendations. Notably, the reform measure (7.1.r.) is expected to reduce the overall reliance on fossil fuels by accelerating the deployment of renewables. The investment measures (7.2.i., 7.3.i., 7.4.i.) are also expected to reduce the overall reliance on fossil fuels and to accelerate the deployment of renewable energy by increasing the uptake of sustainable biomethane, by digitalising, upgrading and securing the national electricity transmission and distribution networks, and by increasing electricity storage and capacity. They are also expected to ensure sufficient capacity of interconnections and to continue synchronisation with the Union electricity grid.

The modifications of the measures in components 1, 2, 3, 5 and 6 do not materially change their contribution to addressing a significant subset of the challenges identified in the relevant CSRs, while some of the modifications address parts of the 2023 CSRs. As such, the modified plan effectively addresses a significant subset of the challenges identified in the relevant country-specific recommendations (CSRs). No reforms are removed and their level of ambition is maintained in all the components.. The reforms of the digital component related to digital transformation of businesses (2.2.1.r.) and development of support framework for adult learning (2.3.1.r.) are improved to clarify the target groups and account for delays in procurement procedures and continue to address the country-specific recommendations regarding digitalisation (CSR 2020.3.7., 2019.3.5.) and skills and adults learning (CSR 2020.2.4., 2019.2.2., 2019.2.4.). Despite delays to the implementation and cost increases for part of the investments, only one is removed. The investment on infrastructure for 5G coverage along the Via Baltica corridor (2.4.1.1.i.) has been removed, however the funds are redistributed to increase the ambition of the development of broadband or very high-capacity network “last mile” infrastructure (2.5.1.2.i.), thus the modified component on digital trans continues to significantly address the country-specific recommendations on digital transformation and infrastructure (CSR 2020.3.7., 2019.3.5.) and skills, including digital skills (CSR 2020.2.4., 2019.2.2., 2019.2.4.). It is positive that, with the amendments, the component on inequality reduction is supported with an additional funding, in order to maintain the ambition to the extent possible, despite the high inflation and as such the modified component on inequality reduction continues to address the country-specific recommendations on social inclusion (CSR 2020.2.1., 2020.2.4., 2019.2.1., 2019.2.3), affordable housing (CSR 2019.3.2.) and regional disparities (CSR 2019.4.1.). Moreover, at the time of submission of the modified RRP, Latvia has made substantial progress in addressing the recommendations related to fiscal policy (2022), anti-money laundering (2020), liquidity support to combat the impact of the crisis (2020) as well as expanding public investment in green and digital transitions (2022).

The REPowerEU chapter is expected to contribute to addressing energy-related challenges (CSR 2022.4., CSR 2023.4.). Notably, the reform on transforming the national energy sector (7.1.r) in the REPowerEU chapter is expected to reduce the overall reliance on fossil fuels by accelerating the deployment of renewables. The investments (7.2.i, 7.3.i, 7.4.i)

are also expected to reduce the overall reliance on fossil fuels and to accelerate the deployment of renewable energy, by increasing the uptake of sustainable biomethane, by digitalising, upgrading and securing the national electricity transmission and distribution networks, and by increasing electricity storage and capacity. They are also expected to ensure sufficient interconnection capacity and to continue the synchronisation with the Continental Europe electricity networks. The investment in installing a Battery Energy Storage System is specifically conceived as a complementary action to a cross-border synchronisation project involving Latvia, Lithuania, Estonia and Poland. Component 1 of the RRP contains investments in energy efficiency renovations of public and multi-apartment buildings, which partly address the challenge. Component 2 of the RRP includes measures aimed to improve participation in adult learning and better skills management; however, the modified plan does not include any new policy efforts aimed at the provision of green skills.

Taking into consideration the reforms and investments envisaged by Latvia, its modified recovery and resilience plan is expected to contribute to effectively addressing all or a significant subset of challenges identified in the country-specific recommendations, or challenges in other relevant documents officially adopted by the Commission under the European Semester, and the modified recovery and resilience plan represents an adequate response to the economic and social situation of Latvia. This would warrant a rating of A under criterion 2.2 in Annex V to the RRF Regulation.

3.3. Growth potential, job creation, economic, institutional and social resilience, European Pillar of Social Rights, mitigating the impact of the crisis, and social territorial cohesion and convergence

The nature and extent of the proposed modifications to Latvia's recovery and resilience plan do not have a material impact on the previous assessment (rating of A) of the plan's impact on the growth potential, job creation, and economic, social and institutional resilience of the Member State, on contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth, and on mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union.

3.4. The principle of 'do no significant harm'

The modified RRP of Latvia, including the REPowerEU chapter, is expected to continue to ensure that no measure included in the plan does significant harm to the environmental objectives within the meaning of Article 17 of the Taxonomy Regulation ((EU) 2020/852). None of the measures included in Latvia's REPowerEU chapter require a 'do no significant harm' (DNSH) derogation.

Latvia has conducted and provided an adequate DNSH assessment of the reform and of all investments included in the REPowerEU chapter. Similarly, for modified measures that require

an update of the existing assessment, Latvia has provided the revised assessments accordingly. The DNSH assessment was performed in line with the methodology set out in the Commission's Technical Guidance on the application of DNSH under the RRF Regulation (2021/C58/01). It covers the six environmental objectives, namely climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. The assessment applies a two-step approach and is performed at measure-level, meaning that each reform and investment is assessed individually. The first step assesses whether there is a risk that a measure could do significant harm to one or more of the environmental objectives (Part 1 DNSH assessment). In cases where the analysis identifies a risk, a more detailed assessment is performed (Part 2 DNSH assessment).

Based on the information provided by the Latvian authorities, there is either no risk of significant harm or, where a risk has been identified, a more detailed assessment is performed demonstrating the absence of significant harm associated with the implementation of the measure.

The majority of the modifications to Latvia's RRP concern decreasing targets and delaying implementation due to the impact of inflation and supply-chain disruptions. Any such decrease did not necessitate a revised DNSH assessment. However, for measures that have been substantially amended or introduced in the context of the revision, such as the measures introduced in the REPowerEU chapter, Latvia has provided revised and new DNSH assessments.

Taking into consideration the assessment of all the measures envisaged, no measure for the implementation of reforms and investments projects included in Latvia's modified RRP, including its REPowerEU chapter, is expected to do a significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) No 2020/852 (the principle of 'do no significant harm'). This would warrant a rating of A under the assessment criterion 2.4 of Annex V to the RRF Regulation.

3.5. Green transition

The measures in the REPowerEU chapter are expected to significantly contribute to the green transition, or to addressing the challenges resulting therefrom, as well as to the achievement of the Union's 2030 energy and climate targets and the Union's objective of climate neutrality by 2050, by preparing the national energy grid for a higher integration of renewable energy and by increasing the uptake of sustainable biomethane. The reform is expected to (i) introduce an enabling framework for energy communities, self-consumers and owners of micro-generators, (ii) lay down conditions for a more efficient use of existing transmission and distribution infrastructures, and (iii) lay down conditions for increasing the uptake of sustainable biomethane to be injected into the existing natural gas supply network. The investment in the security and stability of energy supply, and synchronisation with the Union grid will further contribute to Latvia's green transition away from fossil fuels in general and Russian energy imports in particular. The investment in upgrading, digitalising and

securing the electricity transmission and distribution networks is expected to accommodate a higher amount of variable renewables in Latvia's goal to become a clean energy exporting country. The investment in sustainable biomethane will complement the national effort to increase the share and accelerate the deployment of renewable energy sources. All measures included in the REPowerEU chapter are, therefore, expected to significantly contribute to the green transition, or to addressing the challenges resulting therefrom.

Climate target

The measures in the modified RRP (including the REPowerEU chapter) that support climate change objectives account for 42% of the plan's total allocation (i.e. above the 37% target), based on the methodology for climate tracking set out in Annex VI to Regulation (EU) 2021/241.

Additionally, the proposed measures under the REPowerEU chapter in support of climate change objectives account for 100% of the chapter's total allocation (i.e. more than the 37% required), based on the methodology for climate tracking set out in Annex VI to that Regulation. All investments under the chapter were assigned to the intervention field 033 - *Smart Energy Systems (including smart grids and ICT systems) and related storage*.

Taking into consideration the assessment of all the measures envisaged, the modified recovery and resilience plan, including its REPowerEU chapter, is expected, to a large extent, to make a significant contribution to the green transition or to address the challenges resulting from it and ensures that at least 37% of its total allocation contributes to the climate target. At least 37% of the total estimated costs of the REPowerEU chapter contribute to the climate target. This would warrant a rating of A under criterion 2.5 of Annex V to the RRF Regulation.

3.6. Digital Transition

The modified Latvian RRP broadly maintains its ambition towards the digital transition. The modified RRP continues to contribute towards the digital transition of businesses, infrastructure, and public administration, as well as to foster the development of digital skills. The modified RRP includes 26 reforms and investments with a digital target, resulting in contribution towards the digital transition of 23% (i.e. more than the 20% required) of the total allocation, based on the methodology for digital tagging set out in Annex VII.

Latvia has not proposed to include any new measures related to the digital transition of the economy in the modified RRP. A number of measures are proposed to be modified, while one target is proposed to be deleted to defer the associated envelope towards another measure within the same component. The modified measures primarily relate to the identification of better alternatives for implementing the measures and the modification related to the delay in procurement and implementation, primarily due to unexpected lengthier preparatory procedures than initially planned. Moreover, when assessing the original RRP, measure 1.2.1.5.i. of component 1 (Green Transition) was correctly assigned to the 033 - *Smart Energy Systems (including smart grids and ICT systems) and related storage* intervention field, to which a 100% climate contribution coefficient and a 40% digital contribution coefficient are

associated as per methodology in Annex IV to the RRF Regulation. However, the 40% digital contribution for the abovementioned measure was wrongly left out in the final table of climate and digital tagging included in the SWD accompanying the Commission proposal for a positive assessment of the initial RRP (SWD (2021) 162 final). As part of the current RRP modification, the Commission assessed that the measure, alongside a 100% climate contribution coefficient, should also be attributed a 40% digital contribution coefficient, in line with the methodology contained in Annex VI to the RRF Regulation.

Following the abovementioned amendments, the digital contribution of the RRP is increased to 23%.

The digital component of the modified RRP still significantly contributes to and covers all the aspects of the digital transformation, especially concerning the digital transition of the public and private sectors, skills, and connectivity. The Commission's assessment of the initial RRP, as detailed in SWD (2021) 162 final, was that the measures envisaged in the original RRP were expected, to a large extent, to significantly contribute to the digital transition or to address the challenges resulting from it and ensure that at least 20% of its total allocation contributed to support digital objectives. This warranted a rating of A under criterion 2.6 of Annex V to the RRF Regulation. The digital component continues to structurally address a number of digital transition challenges that are important for Latvia. The modified RRP is expected to continue to focus on creating medium- and long-term changes to improve the competitiveness of the Latvian economy.

The REPowerEU chapter is expected to contribute to the digital transition and to addressing the resulting challenges, by investing in the digitalisation of the electricity distribution and transmission networks, and in the digital security of critical energy infrastructures. However, in accordance with Article 21c(5) of Regulation (EU) 2021/241, reforms and investments in the REPowerEU chapter are not to be taken into account when calculating the plan's total allocation for the purpose of applying the digital target requirement set by that Regulation.

Taking into consideration the assessment of all the measures envisaged, the modified recovery and resilience plan is expected, to a large extent, to make a significant contribution to the digital transition or to address the challenges resulting from it and ensures that at least 20% of its total allocation (excluding the measures in the REPowerEU chapter) contributes to supporting digital objectives. This would warrant a rating of A under criterion 2.6 of Annex V to the RRF Regulation

3.7. Lasting impact of the plan

The overall nature and extent of the modifications have no impact on Latvia's growth potential, and economic and social resilience in the medium term. The changes in investments are tied with the trials stemming from economic and geopolitical challenges due to Russia's unprovoked invasion of Ukraine and its impact on supply chain and inflation. These challenges are proportionally and reasonably reflected in the modified RRP and have no impact on its structural long-term impact. In particular, the RRP is still intended to improve labour supply, with measures such as upskilling and reskilling, and helping private firms to become greener, digital and more innovative, with energy efficiency and R&D support measures.

The new reform and investments in the REPowerEU chapter are expected to have lasting positive effects on the Latvian economy and boost its green and digital transitions. The REPowerEU reform and investments are expected to have a lasting impact on the national energy sector and contribute to the green transition, by promoting energy communities, self-consumers and self-generation, and by upgrading the electricity distribution and transmission networks to meet the challenges linked to i) a higher integration of variable renewables, ii) a decoupling from Russian and Belarusian energy systems, and iii) Latvia's ambition to become a clean energy exporting country.

The nature and extent of the proposed modifications to Latvian recovery and resilience plan do not have an impact on the previous assessment (rating of A) of the lasting impact of the plan.

3.8. Milestones, targets, monitoring and implementation

The nature and extent of the proposed modifications to Latvia's RRP do not have an impact on the previous assessment of the effective monitoring and implementation of the RRP. The milestones and targets of the modified Latvian RRP enable an adequate monitoring of the plan's implementation. The milestones and targets reflect the key implementation steps of the measure and, thus, are relevant for the implementation of the proposed changes. Each measure has, on average, one milestone and one target. The first step is usually a milestone that tracks the initiation of implementation, often the publication of the relevant legislation or call for tender. The second step is, wherever appropriate, a target monitoring the accomplishment of a tangible objective, such as the outcome of a certain number of projects. The milestones and targets appear clear, relevant, acceptable, and robust to ensure that their completion can be traced and verified.

The performance of the new reform and investments included in the REPowerEU chapter will be assessed on the basis of the achievement of clear, relevant and robust milestones and targets. The reform contains four milestones reflecting the key steps and deliverables. The milestones and targets of the investments are consistent with the underlying objectives, cost estimates and the indicative implementation timeline, allowing to ensure that their completion can be traced and verified.

The overall organisational arrangements remain unchanged and the adequacy of the RRP's implementation arrangements has been further strengthened. The Cabinet Regulations on the implementation of RRF investments includes references to the relevant exclusion criteria, to ensure the protection of the financial interests of the Union in accordance with Article 136 of Regulation No. 1046/2018². The existing EU funds management and control system KPVIS is used as a tool for collecting data held by the Enterprise Register and

² Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

the Ministry of the Interior's Information Centre, for the purposes of checking the compliance with the exclusion criteria. In addition, appropriate horizontal checks pursuant to Article 11.2 of the Law on International Sanctions and National Sanctions of the Republic of Latvia will be carried out.

The arrangements proposed by Latvia in its modified recovery and resilience plan are expected to be adequate to ensure effective monitoring and implementation of the recovery and resilience plan, including the envisaged timetable, milestones and targets, and the related indicators. This would warrant a rating of A under the assessment criterion 2.8 of Annex V to the RRF Regulation.

3.9. Costing

Latvia has provided individual estimated costs for all new cost-inducing measures included under the REPowerEU chapter. Latvia has also provided individual justifications for all the measures whose modifications entailed a change in the cost estimates or related targets, including on the proportionality of the change in targets proposed by the amendments.

The cost information provided by Latvia is overall sufficiently detailed and substantiated. Latvia provided estimates and assumptions on costs using the standard template table, which was intended to summarise key information and evidence on costing. Latvia also submitted additional supporting documents for the cost estimates, including tender offers, references to comparable investments conducted in the past, as well as detailed cost estimates prepared by qualified experts. Moreover, Latvia provided different vintages of its construction cost forecast, which justified inflation-related increase in costs.

The assessment of the cost estimates and supporting documents shows that most of the costs of the new measures are well justified, reasonable and plausible. Moreover, the changes in the cost estimates of the modified measures are sufficiently justified and proportional. Finally, the estimated total cost of the RRP is in line with the principle of cost-efficiency and commensurate with the expected national economic and social impact.

Reasonable costs

Overall, the assumptions used by Latvia to estimate the costs of the new measures, including those in the REPowerEU chapter, provide a reasonable explanation of the key cost drivers of the measures. The calculations are generally clearly spelled out, allowing to identify the methodology used, even if for a small number of measures this information is not as detailed. The new measures included in Latvia's RRP, including those in the REPowerEU chapter, comply with the eligibility criteria set out in the RRF Regulation. All costs are incurred after February 2020, and after February 2022 for the measures in the REPowerEU chapter. Value-added tax (VAT) is not included in the cost estimates. In the case of measures being amended under Article 21(1) of Regulation (EU) 2021/241 for cost-related reasons, sufficient information has been provided to justify the objective circumstances underpinning the changes in the cost estimates or related target. In this context, the reasonability of the cost estimates,

taking into account the new measures, including those in the REPowerEU chapter and the amended ones, has been established to a medium extent.

Plausible costs

The amount of estimated costs of new measures, including those in the REPowerEU chapter, is in line with the nature and type of the envisaged reforms and investments. For most of these measures, Latvia provided supporting documents and links to online sources to substantiate the cost estimates, including explanations on how past projects relate to the cost estimates of new measures. For a few measures, the justification for the cost was based on particularity of circumstances, which limited the assessment of their plausibility. Sufficient information has been provided to justify the objective circumstances of the changes in the cost estimates or related targets. Considering the limitations of an ex-ante assessment of cost estimates, the amounts proposed for financing were deemed appropriate and seen as establishing the plausibility of the cost estimates to a medium extent.

No double funding

Latvia has indicated for each individual new measure, including those in the REPowerEU chapter, that the costs to be financed by the RRF will not be funded at the same time by other Union funding sources. Furthermore, the framework to prevent, detect and correct double funding has not been altered by the modification of the RRP.

Commensurate and cost-efficient costs

The total cost of the modified Latvian RRP is commensurate with the expected social and economic impact of the envisaged measures. The RRP is expected to effectively address a significant subset of challenges identified in the CSRs. The main objectives of the RRP are to foster the twin transitions, improve Latvia's growth potential, job creation and economic, social and institutional resilience, thereby reducing its vulnerability to shocks. The RRP contributes to strengthening social cohesion and social protection and to the implementation of the European Pillar of Social Rights. The RRP enhances the economic, social and territorial cohesion and convergence within the Union. The economic and social impact of the RRP, in combination with the positive cost assessment, indicates that the cost is in line with the principle of cost-efficiency.

The justification provided by Latvia on the amount of the estimated total costs of the modified recovery and resilience plan is to a medium extent reasonable, plausible, in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact.

Latvia provided sufficient information and evidence that the amount of the estimated cost of the reforms and investments of the modified recovery and resilience plan to be financed under the Facility is not covered by existing or planned Union financing.

This would warrant a rating of B under the assessment criterion 2.9 of Annex V to the RRF Regulation.

3.10. Controls and audit

The previous assessment had concluded on the adequacy of the control and audit arrangements proposed by Latvia (Rating A) under criterion 2.10 of Annex V to the RRF Regulation. The nature and extent of the proposed modifications to Latvia's RRP do not impact the previous positive assessment, as the new reform and investments included in the REPowerEU chapter will be subject to the same audit and control procedures as those currently in place for the other measures of the plan.

The nature and extent of the proposed modifications to Latvia's recovery and resilience plan do not have a material impact on the previous assessment (rating of A) of the adequacy of the control and audit arrangements proposed by Latvia.

3.11. Coherence

The modified RRP presented by Latvia is structured around seven coherent components, which form a balanced and adequate response in view of the country's main challenges. The modification of the RRP amends the six existing components and integrates an additional (seventh) component, the REPowerEU chapter.

The amendments to the existing RRP are targeted, and only one measure is removed. Therefore, these targeted amendments to the existing RRP do not change the previous assessment that the reforms and investments included in the plan are consistent and mutually reinforcing. At the level of the modified RRP, all components continue to pursue complementary objectives, with no contradictions.

The measures included in the REPowerEU chapter are built around a consistent package of a reform encompassing four reform actions, and three investments. These measures, together with the measures included in component 1 on climate change and environmental sustainability, create a mutually reinforcing response to the country's energy challenges related to energy security and increasing the share of renewable energy. The reform will facilitate the efficient use of the current capacity of the grid and promote self-generation. The investments will increase the capacity of the grid to accommodate a higher amount of variable renewables, accelerate the synchronisation of the national grid with Union grid, and increase storage capacity. All these interventions are intrinsically linked to reforms on the wind farm development included in component 1.

In order to promote wider coherence across instruments, notably with the European cohesion policy funds, a balanced territorial allocation of resources is encouraged.

The nature and extent of the proposed modifications to Latvia's recovery and resilience plan do not have a material impact on the previous assessment (rating of A) of the coherence of the actions proposed by Latvia.

3.12. REPowerEU

The measures included in the REPowerEU chapter are expected to contribute to the objectives under Article 21c(3), points (b), (c) and (e) of Regulation (EU) 2021/41. The investment in sustainable biomethane is expected to increase the uptake of this source by creating a regional injection point and by establishing a legal framework for injecting sustainable biomethane into the existing natural gas network. The investment in the modernisation, digitalisation and security of the electricity grid is expected to increase the share and accelerate the deployment of renewable energy, by implementing smart grid management solutions, both transmission and distribution levels, and by increasing the national grid capacity to accommodate higher integration of renewables. The reform aims at addressing energy poverty by establishing a favourable regulatory framework for energy communities, and by introducing under this framework initiatives supporting vulnerable groups. The investment in the construction of a Battery Energy Storage System is expected to contribute to addressing internal and cross-border energy transmission, as well as distribution bottlenecks resulting from the progressive desynchronisation of the national grid from Russian and Belarusian energy infrastructures. This investment should also support electricity storage and increase energy security.

The measures included in the REPowerEU chapter are coherent with the efforts of Latvia to achieve the objectives set out in Article 21c(3) of Regulation (EU) 2021/41, taking into account the measures included in the original RRP, as well as other nationally funded or Union-funded complementary or accompanying measures. Investment 7.2.i. – ‘Security and stability of energy supply, and synchronisation with the Union grid’ is complementary to a cross-border project financed by the Connecting Europe Facility. Investment 7.3.i. – ‘Upgrading, digitalising and securing the electricity transmission and distribution networks’ presents synergies with investment 1.2.1.5.i. – ‘Modernisation of electricity transmission and distribution networks’ contained in the original RRP. The chapter’s objectives are aligned with Latvia’s efforts to further reduce reliance on fossil fuels, to accelerate the green transition, and to become a clean energy exporting country.

As part of the consultation process with stakeholders, a public consultation on the draft modified plan and REPowerEU chapter was organised from 18 May 2023 to 1 June 2023, on the dedicated legislative portal. A total of 12 contributions were received from four partners: the Green Freedom Association, the Latvian Association of Municipalities, the Latvian Chamber of Commerce and Industry, Latvian Information Technology Clusters. Latvia reports that all received comments have been examined in cooperation with line ministries and explanations were provided to stakeholders on the follow-up action. As the proposals advanced by stakeholders participating in the consultation were already addressed by existing measures in the national RRP or in other EU funds operating programmes, Latvia has clarified that the received inputs were not found to be relevant for REPowerEU measures.

Taking into consideration the assessment of all the measures envisaged in the REPowerEU chapter, the chapter is expected, to a large extent, to contribute effectively to energy security, the diversification of the Union’s energy supply, an increase in the uptake of renewables and in energy efficiency, an increase of energy storage capacities or the necessary reduction of dependence on fossil fuels before 2030. This would warrant a rating of A under criterion 2.12 of Annex V to the RRF Regulation.

3.13. Cross-border or multi-country dimension or effect

The REPowerEU chapter is assessed to have, to a large extent, a cross-border or multi-country dimension or effect. The REPowerEU chapter contributes to securing energy supply in the Union as a whole, by accommodating a higher integration of renewable energy through smart grid management solutions, by modernising and securing electricity infrastructures, and by accelerating the synchronisation of the Baltics' electricity grid with the Union grid. The REPowerEU chapter also contributes to reducing the dependency on fossil fuels, by increasing the uptake of sustainable biomethane, and by investing in the modernisation, digitalisation and security of the power grid to accommodate a greater uptake of renewable energy sources.

Of the four measures in the Latvian REPowerEU chapter, two have a cross-border and multi-country dimension and effect. The investment measure covering the installation of a Battery Energy Storage System (BESS) is precisely aimed at complementing a cross-border project implemented by Latvia, Lithuania, Estonia and Poland, with the objective of ensuring full synchronisation of the Baltic States' electricity networks with the Continental Europe network. This investment also encompasses ancillary activities aimed at enhancing cybersecurity of critical infrastructures and ensuring stable operation of the transmission network after the synchronisation, in view of a greater integration of renewable energy sources (RES). The investment on upgrading, digitalising and securing the electricity transmission and distribution networks also has a cross-border and multi-country dimension and effect, as it is expected to contribute to removing bottlenecks in energy flows and facilitating the integration of RES in the networks. The two investments account for 99% of the value of the REPowerEU chapter.

Table 4: REPowerEU measures

| REPowerEU measure | Costs (EUR million) | Contribution to the target in % |
|--|--------------------------------|--|
| 7.1.r. Transforming the national energy sector | - | - |
| 7.2.i. Security and stability of energy supply, and synchronisation with the Union grid | 60.3 | 45% |
| 7.3.i. Upgrading, digitalising and securing the electricity transmission and distribution networks | 72.9 | 54% |
| 7.4.i. Increasing the uptake of sustainable biomethane | 1.5 | - |

Taking into consideration the assessment of all the measures envisaged in the REPowerEU chapter, the measures in the chapter are expected, to a large extent, to have a cross-border or multi-country dimension or effect. This would warrant a rating of A under criterion 2.13 of Annex V to the RRF Regulation.

ANNEX I: CLIMATE TRACKING AND DIGITAL TAGGING

| Measure/Sub-Measure Name (with ID) | Budget (EUR) | Climate | | Digital | |
|--|-----------------|--------------------|-------------|------------|-------------|
| | | Int. Field | Coeff. % | Int. Field | Coeff. % |
| 1.1.1.1.i.1. Competitive rail passenger transport in the common public transport system of the city of Riga (acquisition of electric rolling stock) | 74.400.000 | 067 | 100% | | |
| 1.1.1.1.i.2. Competitive rail passenger transport in the common public transport system of the city of Riga (railway modernisation -TEN-T) | 32.450.000 | 067 | 100% | | |
| 1.1.1.1.i.3. Competitive rail passenger transport in the common public transport system of the city of Riga (railway modernisation) | 40.250.000 | 069 bis | 100% | | |
| 1.1.1.2.i.1. Environmental improvements in the city of Riga's public transport system (clean urban transport) | 14.270.000 | n/a ^[1] | 100% | | |
| 1.1.1.2.i.2. Environmental improvements in the city of Riga's public transport system (clean urban transport infrastructure) | 97.285.492 | 073 | 100% | | |
| 1.1.1.3.i. Complete rolling infrastructure – (cycling infrastructure) | 34.514.008 | 075 | 100% | | |
| 1.2.1.1.i. Improving the energy efficiency of multi-apartment buildings and transition to renewable energy technologies | 57.282.000 | 025 bis | 100% | | |
| 1.2.1.2.i. Increasing energy efficiency in business, which is planned to be implemented nationally in the form of a combined financial instrument | 120.586.000 | 024 ter | 100% | | |
| 1.2.1.3.i. Improving municipal buildings and infrastructure by promoting the transition to renewable energy technologies and improving energy efficiency | 29.304.000 | 026 bis | 100% | | |
| 1.2.1.4.i. Improving the energy efficiency of public sector buildings, including historical buildings | 23.956.000 | 026 bis | 100% | | |
| 1.2.1.5.i. Modernisation of electricity transmission and distribution networks | 80.000.000 | 033 | 100% | 033 | 40% |

| Measure/Sub-Measure Name (with ID) | Budget (EUR) | Climate | | Digital | |
|---|-----------------|------------|-------------|------------|-------------|
| | | Int. Field | Coeff. % | Int. Field | Coeff. % |
| 1.3.1.1.i.1. Capacity building for rescue services, in particular the upgrading of the infrastructure and the logistical base of the VUGD (tag increased to 100% - see section 4.5 of the original SWD(2021) 162 final) | 36.630.000 | 025ter | 100% | | |
| 1.3.1.2.i. Investments in flood risk reduction infrastructure | 32.967.000 | 035 | 100% | | |
| 2.1.1.1.i. Administration modernisation and digital transformation of services, including business environment | 13.677.280 | | | 011 | 100% |
| 2.1.2.1.i. Centralised governance platforms and systems | 68.707.920 | | | 011 | 100% |
| 2.1.2.2.i. National Federal Cloud of Latvia | 12.490.800 | | | 055 | 100% |
| 2.1.3.1.i. Data availability, sharing and analysis | 33.986.000 | | | 011 | 100% |
| 2.2.1.1.i. Support for the establishment of Digital Innovation Hubs and Regional Contact Points | 10.000.000 | | | 010 | 100% |
| 2.2.1.2.i. Support for the digitisation of processes in commercial activities | 40.000.000 | | | 010 | 100% |
| 2.2.1.3.i. Aid for business introduction of new products and services | 24.300.000 | | | 010 | 100% |
| 2.2.1.4.i. Financial instruments to facilitate the digital transformation of economic operators | 45.143.000 | | | 010 | 100% |
| 2.2.1.5.i. Fostering the digital transformation of media companies | 5.700.000 | | | 010 | 100% |
| 2.3.1.1.i. Delivering high-level digital skills | 17.000.000 | | | 108 | 100% |
| 2.3.1.2.i. Development of key digital skills of enterprises | 20.000.000 | | | 108 | 100% |
| 2.3.1.3.i. Development of a self-accompanied training approach for ICT specialists | 7.600.000 | | | 108 | 100% |
| 2.3.1.4.i. Development of the approach to individual learning accounts | 14.306.000 | | | 108 | 100% |
| 2.3.2.1.i Digital skills for citizens, including young people | 12.632.000 | | | 108 | 100% |

| Measure/Sub-Measure Name (with ID) | Budget (EUR) | Climate | | Digital | |
|--|-----------------|------------|-------------|------------|-------------|
| | | Int. Field | Coeff. % | Int. Field | Coeff. % |
| 2.3.2.2.i. Development of state and local government digital transformation skills and capabilities | 8.250.000 | | | 108 | 100% |
| 2.3.2.3.i. Closing the digital divide for socially vulnerable students and educational institutions | 15.000.000 | | | 108 | 100% |
| 2.4.1.2.i. Broadband or very high capacity network “last mile” infrastructure development | 16.500.000 | | | 053 | 100% |
| 3.1.1.6.i. Purchase of zero-emission vehicles for the performance of municipal functions and services | 10.000.000 | n/a[2] | 100% | | |
| 3.1.2.5.i. Participation in the labour market of unemployed, job-seekers and people at risk of unemployment | 28.710.000 | | | 016 | 40% |
| 6.1.1.1.i. Modernisation of existing analytical solutions | 2.100.000 | | | 011 | 100% |
| 6.1.1.2.i. Development of new analytical systems | 1.880.000 | | | 11 | 100% |
| 6.1.1.3.i. Personnel training to work with an analytical platform and consultancy | 20.000 | | | 108 | 100% |
| 6.1.2.1.i. Linking railway x-ray equipment to Baxe and use of artificial intelligence for rail freight scanning image analysis | 3.000.000 | | | 11 | 100% |
| 7.2.i Security and stability of energy supply, and synchronisation with the Union grid | 60.343.378 | 033 | 100% | 033 | 40% |
| 7.3.i Upgrading, digitalising and securing the electricity transmission and distribution networks | 72.900.000 | 033 | 100% | 033 | 40% |
| 7.4.i Increasing the uptake of sustainable biomethane | 1.500.000 | 033 | 100% | 033 | 40% |

[1] The ‘Methodology for climate tracking’ annexed to the Recovery and Resilience Facility Regulation does not set out intervention fields that would allow for climate or environmental tracking of electric vehicles or plug-in hybrid vehicles, except for vehicles for urban transport falling under intervention field 074. According to Article 18(4)(e) of the Regulation, the methodology should however ‘be used accordingly for measures that cannot be directly assigned to an intervention field listed in Annex VI’. In this context, the Commission has applied a 100% climate contribution coefficient for zero-emission vehicles of all categories (this includes battery electric and fuel cell/hydrogen-powered vehicles).

[\[2\]](#) The ‘Methodology for climate tracking’ annexed to the Recovery and Resilience Facility Regulation does not set out intervention fields that would allow for climate or environmental tracking of electric vehicles or plug-in hybrid vehicles, except for vehicles for urban transport falling under intervention field 074. According to Article 18(4)(e) of the Regulation, the methodology should however ‘be used accordingly for measures that cannot be directly assigned to an intervention field listed in Annex VI’. In this context, the Commission has applied a 100% climate contribution coefficient for zero-emission vehicles of all categories (this includes battery electric and fuel cell/hydrogen-powered vehicles).