

Russia: power plays

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This month's Russia Calling forum in Moscow, hosted by Russian state majority-owned bank VTB Capital, drew in international bankers, developers and media to discuss the state of Russia's infrastructure sector.

The event was intended as a showcase for investment opportunities in the sector, and Russian President Vladimir Putin was in attendance. He was bullish in his assessment of the sector's fortunes in the face of tumbling oil prices, and a [weak year for growth in 2014](#).

"We have faced the crisis [...] and the economy in general – I don't say absolutely - adapted or is confidently adapting to these changing conditions. This means the first signs of stabilisation," he said.

And indeed, the mood was one of cautious optimism for the various [road](#), [rail](#) and innovative [private initiative PPP](#) projects moving through the development process in the country. But there was little said about one of the fundamental sectors in the Russian economy during the conference – energy.

High supply

It is clear that Russia doesn't need any more new energy projects. In a country that only a decade ago was subject to frequent power blackouts, Russia now has a glut of electricity supply. Between 2003 and 2008, wholesale reforms liberalised the Russian electricity market and some 30GW of new capacity was commissioned. Today, it has a capacity margin (the percentage by which available generation exceeds electricity demand) in 2015 of between 30% to 40%. By way of contrast, the [UK's capacity margin this winter sits at just 1.2%](#).

The factors leading to this include a inaccurate forecasting of power usage and an increasingly efficient industrial sector. Industry is thought to account for some 85% of power consumption, with domestic consumers representing the remaining 15%. VTB Capital's director of utilities research Mikhail Rasstrigin says that a slow economy has not helped matters, and "even if the economy revives, we are not expecting significant growth in electricity demand in 2016."

Rasstrigin says the majority of Russian electricity is sold in the spot market, with daily sales accounting for 90% of the market. What utilities want is certainty, and a more far-sighted approach to how their plants will be used. "There are plans by the regulator to introduce a more long-term capacity auctions," he says, but these are moving slowly.

Is decommissioning the answer?

Russia is now faced with a situation that would have been unthinkable a decade ago, that of needing to decommission capacity. Rasstrigin said there are proposals afoot to design a special market for decommissioned capacity. Owners will receive deeply discounted tariffs and in return must keep the plant available for use. Russia will have to exercise caution in how it manages down its overcapacity. Rasstrigin says the government "will have to decommission very carefully. A lot of the electricity that forms part of the 30%-40% margin is unreliable – there's a lot of old power plants."

One option – selling excess supply – does not seem to be attracting interest. The export market for Russian electricity is small. China, Finland, Ukraine and some of the Baltic states are customers, but sanctions and a lack of adequate transmission capacity means the glut of power is unlikely to be sold off to other countries for profit anytime soon.

Renewables' poor prospects

Another topic within the energy sector that was rarely mentioned at Russia Calling was renewable generation. That industry faces the triple challenge of a lack of power demand, uneasy relations with Western suppliers – who sell their products in dollars, or Euros – and little government impetus to replace conventional power with green energy.

Even then, sanctions and internal politics are driving away would-be lenders, the head of the Moscow practice of one international law firm told *IJGlobal*. “Corruption is still an issue. New greenfield energy projects, especially renewables, require huge amounts of local authority support, which can change quickly. Even for companies without sanctions, any decent international bank would need to carry out six months of compliance on a project. It doesn’t even seem worth trying.”

Speaking earlier this year, Enel’s chief executive Francesco Starace didn't seem convinced that the immediate future of the Russian greenfield energy market is that bright either. “In Russia it’s necessary to create strong regulatory premises to justify the passage from one energy source to another. And it comes with a hefty price. At the moment I don’t see any logic in this from an economic standpoint. Possibly in the future, when demand picks up, there will be some.”

For now, the Russian energy market looks set to focus on how best to manage what they already have.

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