



**MOSCOW INTERNATIONAL ENERGY FORUM**  
**«RUSSIAN FUEL AND ENERGY COMPLEX IN THE XXI CENTURY»**

Central Exhibition Hall «Manege», Moscow

119019, Moscow, PO Box 76

Tel/Fax (495) 664-24-18 www.mief-tek.com e-mail: info@mief-tek.com

**«Russian Power Industry: Reform Fruits Have Ripened,  
Bitter Fruits Though»**

*Comments on the results of the session held by the State Council on Power Industry on March 11, 2011.*

The history of the Russian power industry's reform that longed for several years has formally come to end. Since January 1, 2011, the transition period of the reform is over; now, all the electric energy from the wholesale market is supplied at free (uncontrolled) prices. The customers expected smooth and gradual adoption of the free prices with the growth of about 15 % (in accordance with last autumn's forecasts from the Government). Instead, in dozens of the regions, the electric energy prices grew by 30–50 %, and for certain customers – as much as by 70 %. The business sector, small and medium companies – especially power-consuming enterprises without their own generation sources – now go through hard times. Having just recovered from the first New-Year present from the Government that was an increased single social tax, now they have another one, from the energy producers. In such conditions, the enterprises' debts have set to grow; the increase of the products' prime cost has provoked higher products' price and affected competitiveness. A danger tendency encouraging «envelope salaries» has appeared, since for many organizations it remains the only alternative to ceasing business operation. The two months of new «experience» were quite enough and business owners raised the alarm and began to swamp the authorities of all levels with petitions demanding urgent interference to amend the situation. The Government reacted to the demands and proposed to change – in the current regulation period – the pricing procedure in the power industry with a view to help disinflation and reach the promised 15 %. Though, this decision was opposed by the foreign investors having joined the energy generation sector at the beginning stage of the reform. In their letter, addressed to the Chairman of the Government V. Putin, they emphasized that if the proposed measures were implemented, it were their economic interests – rather than those of the grid companies – that would be primarily infringed; meanwhile those companies' contribution to the electric energy price growth was minimal. Therewith, they gave a broad hint that it was not all right to change the rules when they had already made up their repair and investment programs proceeding from the formerly effective pricing mechanisms. Generally, there was quite a difficult situation; and its further negative development would threaten all the economy. Then, the President of the Russian Federation D. Medvedev came to deal with it in the «manual mode».

At the State Council session, D. Medvedev assessed the power industry as a key sector and a base for sustainable economic development; he emphasized its influence on the Russians' life quality and its importance for maintaining the national and social security; nevertheless, he pointed out two major sector-related threats to the economic growth. The first one: obsolescence and physical depreciation of the infrastructure, causing, in particular, low efficiency and technical safety. The second threat: (especially resonant – as D. Medvedev noted) an excessively high electric energy price level.

In the light of those two key problems, D. Medvedev formulated the response strategic tasks and the reference points originating from them: total re-equipping the power industry technological objects (with a view to the increase of their technical and anti-terrorist security) and stopping the growth of the energy prices for the customers. How can these two tasks – which are in certain degree mutually exclusive – be fulfilled? The Russian president suggests using a package of original instruments? So, what are these instruments? Firstly, it is suggested to promote the industry modernization. For this purpose, the companies with state participation will work out special Innovative Development Programs; when the programs are approved, the Russian Government will prepare a complex action plan for introducing progressive technical solutions into the power industry sphere. This Plan will especially focus on the energy saving technologies and the renewable energy sources. D. Medvedev has also made it clear that the adopted «Power Industry Object Layout» may be changed.

According to D. Medvedev, one of the causes of the energy price growth is low efficiency of the grid companies. The Russian President suggests several key instruments to prevent price growth. First: strengthening the supervision over using the investment resources in the largest companies with state participation; ensuring optimization of the investment programs and of the principles of paying for the services of the grid companies. Second: restructuring the stock capital and even privatizing a certain part of the regional distributing grid companies. Third: D. Medvedev believes that ensuring more active consumers' participation in the electric energy pricing procedure is an issue of principal importance. D. Medvedev believes that, in order to reach this goal, it is necessary to expand the consumers' representation in the Supervisory Board of the Non-Commercial Partnership «Market Council». He also concedes broader participation of representatives of the consumers in the regional energy commissions.

Well, probably, this package of measures will allow partial resolution of the congested problems indeed, or, at least, will cool the temperature. However, upon deeper analysis of the cause-and-effect relations, stipulating the current state of things in the power industry, we can not but come to a deplorable conclusion. This is that such serious and large-scale reform, as this power industry reform, should have been accompanied with parallel resolution of other systemic problems of the Russian economy; but it failed. Unlike the oil or gas industries, the electric power industry virtually has no export orientation and, consequently, it has to rely on stable solvent domestic demand. Demand is present, but, as for its solvency within

the given price values, we have serious problems with it. Our manufacturing industry is simply unprepared for a free electric energy market. When the state's monetary policy is directed to relative macroeconomical stability and resistance to inflation, the actual rouble exchange-value moves away from the nominal value still further and the manufacturers are depressed with import and an additional tax burden. Again, now they have to endure the whole of the «price impact» of the power industry reform, since the problem of cross subsidy still needs to be solved. In protecting the population from the growth of the prices for the services in the sectors being reformed – and such growth is inevitable for this kind of reforms – the authorities has, as usual, shifted all the weight of the reforms to the business. And the population, accustomed to social «charity», does not get from the state the principle thing – opportunities for earnings growth. Such opportunities could arise in the small and medium business (and not only in the commerce and service sectors, but in the innovative production too), but the Government and the legislators seem incapable of creating the basic conditions, required for it. So, by cornering the business, the authorities, in fact, saw off the bough on which they are sitting. A strong social state can not exist without a strong private business sector. And a strong private business sector can not appear in a country without normal basic conditions for its development. In general, turning back to the ambiguous results of the power industry reform, it may be stated that, metaphorically speaking, we are trying to treat symptoms, not bothering ourselves with curing the diseases. No sector reform will have a sound result if it develops regardless of the context and the direction of the universal cardinal changes of the economic development model.

## **Principal Analyst of the Forum**

**Alexander Epishov**

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