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CENTRE FOR EASTERN STUDIES 16.03.2011 www.osw.waw.pl

Russian Federation: Regulating energy prices before the elections

On 9 March, foreign shareholders in several Russian regional energy holdings which produce electricity – Germany's E.On, Italy's Enel and Finland's Fortum – wrote an open letter to Prime Minister Vladimir Putin protesting against the government's plans to halt the rise in energy prices. They considered this move to be a violation of previously concluded agreements. The significant increase in energy prices, which has caused social protests, has been criticised by the government and President Dmitri Medvedev. Both the Prime Minister and President have supported a curb on electricity price increases. In an election year (parliamentary elections will be held this December, and presidential elections in March 2012), the interests of investors are secondary to the priority of maintaining social stability and maintaining relatively low energy prices for domestic industry.

The Russia government's agreement with foreign investors, which were concluded as part of the energy reforms of 2007-8, include provisions for an increase in energy prices for industrial customers of 15%, and of about 10% per year for the general public, including an annual index-linking of prices by the amount of inflation (average annual inflation is currently running at about 8%). This was to ensure a return on investments (estimated at €5.5 billion), and to ensure their profitability at a level of around 15% per annum within 10 years. However, energy prices in Russia have risen more quickly than expected. In 2011, the prices for industrial customers in 38 regions of the Russian Federation have passed the 15% ceiling, and in relation to 2010 have risen from 33% to almost 50%. There have been a number of reasons for this, including an increase in the prices of transmission (of about 25%) and of fuel (from 10% to 20%). However, this has not meant that the planned profits have been achieved.

In order to stem the price rises, the government's plans include giving up this year's plan to index-link tariffs by the amount of inflation, and lengthening the period of the state's regulation of energy prices, from the originally planned three years to five. This alters the rules of the game, and will make it harder to stick to the terms of contracts with foreign investors. <epa>