

Sechin Lauds Modern, Foreign-Built Facility

By [Olga Razumovskaya](#)

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German power company E.On, majority owner of Russian energy company OGK-4, launched a 400-megawatt, advanced-efficiency, gas-fired electricity plant on Friday at Shatura, 150 kilometers east of Moscow.

The new unit is the first of its kind to be launched in Russia and only the second in Europe, Deputy Prime Minister Igor Sechin said at a news conference in Moscow, following the launch of the unit.

Sechin was quick to highlight the government's support for investors, in a sector that has been surprisingly devoid of domestic financing.

"The Russian government also fulfills its obligations to create a regulatory framework, to control existing investment programs," the deputy prime minister said.

The investor and main contractors for Shatura are foreign: General Electric and Turkish construction company GAMA Power Systems were hired by E.On to build the plant, which took just under three years to complete.

This is the first major energy generating facility built after the breakup of Unified Energy System, the country's electric power holding, which monopolized the electricity market from the early '90s to the late 2000s.

The project itself is considered a state-of-the-art endeavor, gaining recognition by the United Nations as the first Russian joint implementation project under the Kyoto Protocol, established to help fight global warming.

The power station's efficiency is 55.93 percent, compared with about 30 percent in many older domestic power plants. It also has far lower carbon-dioxide emissions than the older, less-efficient plants with a similar capacity, E.On said in a statement.

“With this power station alone, carbon-dioxide emissions can be cut by over a million tons by the end of 2012,” the statement said.

Sechin took the opportunity to compliment the foreign investors and made it clear that the state expects companies to stick to committed deadlines for finishing projects.

“Solutions aimed at modernizing electric energy must be exactly fulfilled,” Sechin said. “We will fulfill our obligations to investors as a government, but our primary obligation is to the Russian consumers of electric energy. Energy consumption in Russia is going up, and we must take the interests of the Russian consumer into consideration,” Sechin also said.

The downside of the technologically advanced project, experts say, is its cost: \$1,300 was spent per kilowatt of the Shatura project, compared with the average \$700 to \$900 per kilowatt for similar projects in Europe.

One of the reasons behind the disparity has to do with how the state has structured its obligations to the power companies. Companies that have purchased state electricity-generating assets have fixed obligations to deliver electrical power.

“Investors have no choice but to build a plant, many companies have to build capacities at the same time, and construction contractors, a relatively small and closed-off market in Russia, see that and immediately elevate the prices,” said Mikhail Rasstrigin, an energy analyst at VTB Capital.

“According to our plans, six more units with the same characteristics will be launched in Russia,” Sechin said.

The new unit was completed as part of E.On's investment program in OGK-4, which totals 2.3 billion euros through 2014, by which time the company is scheduled to deliver 2,400 megawatts of energy capacity.

In addition to Shatura, E.On has been the primary investor in power plant projects in Surgut and Yaiva, and is beginning work on an 800-megawatt coal-fired plant at Beryozovskaya in the Krasnoyarsk region.

Head of E.On Russia Sergei Tazin told Interfax on Friday that the company is looking for a contractor and had received applications from Kvarts, Tekhnopromexport, Energoprojekt and E4.

Analysts view the launch positively — as an important step toward revamping the energy sector — but point out that domestic companies missed out on a good opportunity to work on a big energy project.

“When Unified Energy System was being restructured and assets were being sold off, foreign companies jumped at the opportunity and Russians had a difficult financial situation and generally just did not buy into the idea that first you need to build something and then you'll get paid,” Rasstrigin said.

“Meanwhile foreigners honestly took on the responsibility,” Rasstrigin told The Moscow Times.

Rasstrigin pointed out that the government went out of its way to praise foreign investors for fulfilling their obligations. The latter, in turn, had no choice but to deliver on their promises.

“When E.On or Enel come to Russia, reputational risks for them are high. They cannot fail to deliver something if they signed up for it,” Rasstrigin said.

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