

Energy Efficiency Initiative Will Mean Good Business

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Sharp-eyed investors have spotted a new fad to cash in on — the Russian government's enthusiasm for energy efficiency.

“It's just starting,” Leonid Sorkin, general director of Honeywell Russia, told The Moscow Times. “But it is going to be big.”

Russia is the most energy-intensive country in the world, consuming 1.39 tons of coal equivalent for every \$1,600 of GDP produced. That's three times higher than Canada and more than any other BRIC, according to a 2009 report by the McKinsey & Company consultancy.

That's partly because of geography and climate: Residents and heavy industry alike have to function through long, cold winters. But there is still room for change.

President Dmitry Medvedev has made energy efficiency a plank of his modernization

platform. In 2008 he set a target to reduce Russia's energy intensity by 40 percent by 2020.

And the Energy Efficiency Program to 2020, approved by the government last October, set aside 9.5 trillion rubles (\$3 billion) for energy saving programs.

Sorkin, whose company employs 150,000 people globally and has been rated one of the most influential corporations in the United States, is clear about what this means for business. "In Russia we are totally focused on energy saving," he told The Moscow Times.

"Our role is a future role — but it is a very important role."

There are two key elements to energy efficiency: improving efficiency of generation and transmission, and getting end users to use — or waste — less power.

Sorkin says his company is initially pursuing regional administrations to sell them technologies ranging from smart grid software — which helps generators tailor sales to certain areas and times as demand peaks and troughs — to insulation materials for homes.

He says it is too early to talk about successes, but he reports "good progress" in Tatarstan and the Chelyabinsk region.

Honeywell is only one of many foreign companies seeking a slice of the energy efficiency pie.

In February, Invensys chief executive Ulf Henrikson pitched his own company's smart net technologies to the technology committee of the Federation Council and announced a tie-up with INVEL, an alliance of Russian energy companies devoted to development of new technologies.

But there are still barriers to overcome — crucially, a lack of financing and appropriate contractual models.

"There's a lack of financial infrastructure because of the very long payback period on this kind of project," Sorkin said.

The country could also do with the development of "performance contracts" — in which contracts are paid based on savings of energy.

But legislation is the key element to boosting the efficiency agenda, said Andrei Lavrinenko, vice president of Alstrom Energy, a French builder of turbines that counts almost every energy firm in Russia among its customers.

"We're always pouring research and development into efficiency — but as the costs of research drive up the price of more efficient products, a stronger incentive to buy would help," he said.

"If the government said to utilities companies 'you should not build generators with less than say, 37 percent efficiency for a gas turbine,' then they'd really have an incentive," Lavrinenko said.

That legislation is barely even on the horizon, however.

Currently, average efficiency for a gas turbine is about 35 to 38 percent, while average for a combined-cycle turbine is 55 to 56 percent. Alstrom's range of turbines includes a simple-cycle turbine with 38.1 percent efficiency and a combined-cycle turbine with 58.3 percent. Lavrinenko says 60 percent is well within the realms of possibility.

No one is willing to put a dollar value on the market for energy efficiency measures, but it is likely to be vast.

The McKinsey & Company report projected that Russia could save \$486 billion over the next 20 years and reduce energy consumption by 23 percent if it plowed \$210.8 billion of investment into maximizing efficiency.

Sverdlovsk region authorities are considering building an underground nuclear reactor because of perceived safety benefits, the regional Energy Ministry told RIA-Novosti on Tuesday. No timetable has been set for the project pending further study.

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