

Escargots on Menu at Tomsk Electric Grid

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Privatization of Russia's electricity grid moved a step further along Friday when MRSK Holding agreed to give French EDF managerial control of its Tomsk Distribution Company.

The deal, which is subject to Russian government approval, sets the conditions for a formal contract between IDGC and EDF subsidiary ERDF that will be signed at the St. Petersburg Economic Forum in June.

"I hope that [the agreement] will allow us to arrive in three months' time at the signing of a contractual agreement on the transfer of management at the Tomsk Distribution Company," Michelle Bellon of ERDF said in comments carried by Interfax.

An ERDF subsidiary will be set up in Russia to run the Tomsk Distribution Company. ERDF will be expected to improve financial performance, upgrade technology and improve safety standards.

The French company will be compensated according to how well it meets these commitments, though the sides did not offer details on either the payment mechanism or the time frame of the agreement.

The Tomsk Distribution Company is one of dozens of regional grid operators controlled by the state-owned MRSK Holding, which President Dmitry Medvedev has recently hinted could be privatized.

The current agreement does not envisage EDF buying into the company, but Bellon said she did not rule it out — suggesting that EDF was probably looking to "get its foot in the door" for any future privatization.

But analysts say it is premature to talk about full-scale privatization, partly because of the need to negotiate different tariffs in different regions.

Unlike most grid companies, the Tomsk Distribution Company only operates in a single region, making negotiation with regional authorities straight forward.

"But if you look at regular distribution company's they're normally covering something like 8, 9, 10 different regions with specific governors with the necessity to discuss tariff regulation every year with the respective regional authorities," said Alexander Kornilov, senior utilities analyst at Alfa Bank. "That makes it much more difficult for foreign investors, and it is one more obstacle to full privatization."

Meanwhile, confusion about attempts to reform electricity tariffs has left investors in the power generation sector fuming.

Dominique Fash, the French chairman of Enel OGK-5, told Vedomosti on Friday that he would "not have come [to Russia] if I'd known" how reform in the sector would turn out.

Investors have complained that a reform package meant to liberalize pricing from the beginning of 2011 has been stymied by "mixed messages" from the government.

Prime Minister Vladimir Putin in February criticized the government for allowing prices to grow too fast in the regions, and regulators have since signaled that they may tighten rather than loosen controls.

Thermal power generators have also complained that they are paying the price for government attempts to offset the costs of more expensive nuclear generation.

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