

The Future of Russia's Heat Supply

KEY CONCLUSIONS

Heat supply market needs to be reformed under tight price constraints

"The heat supply market has huge potential and enormous resources: it is absolutely impossible to manage without heat; it has no replacement, no alternative. But this product has a downside, and it imposes very serious restrictions, it has high social significance: the tariff. Within these limitations it is very difficult to find a solution that allows to increase efficiency and reliability without harming consumers," Airat Sabirzanov, First Deputy General Director – Director for Economics and Finance, Tatenergo.

"When we talk about reforming heat supply, we always talk about growing tariffs, in one way or another; nevertheless, I would rather be very careful, because there are so many reasons why it is so difficult to raise heat tariffs. There is an additional factor: the low inflation that we now have in Russia, which is likely to remain in the coming years. In terms of low inflation, the contribution of tariffs to inflation has grown, so if it used to be about 20%, it is nearly half now," Natalya Porokhova, Head of Research and Forecasting Group, Analytical Credit Rating Agency (ACRA).

"There is a difficult situation: the tariffs are very high, but healthy demand is not too high <...> Therefore, we are trying to create infrastructural, systematic prerequisites that would allow companies to develop in this difficult situation. New regulations are being adopted: the principal one among them is the law 'On Heat Supply'," Vitaly Korolev, Deputy Head, Federal Antimonopoly Service of the Russian Federation (FAS Russia).

"We have a 30% tariff growth, given the five-year increase, we had to add the reduction coefficient on top of that. So the period of bringing it up to the price of the alternative boiler facility is 7 years, <...> we fit into the indices, taking into account the maximum deviations," Sergey Buharov, First Deputy General Director, Sibtek.

Heat market conditions affect the electricity market

"About 30% of Russia's electricity today is generated in cogeneration; for us it means that heat provides for rather low prices on electricity generation. Therefore, what happens on the electric market will largely depend on what happens in the heat supply market," Aleksandr Vilesov, Director for Economics and Heat Sites, T Plus.

PROBLEMS

Heat supply lacks investment

"Russia produces 30% more heat than electricity, but at the same time the heat market is two times less than the electricity market, and two times less in money value, because basically our heat is three times cheaper in comparable units. And most importantly, from the investment standpoint, although we produce more heat, we still invest seven times less in heat than in the electric power industry, for example," Natalya Porokhova, Head of Research and Forecasting Group, Analytical Credit Rating Agency (ACRA).

"It would seem that the first thing to do in the housing sector would be to switch to the closed system (of heat supply — *Ed.*) and install individual heating units ubiquitously, at the same time solving all of the problems in the housing facilities <...> Closing the system of heat supply is in our legislation, and that should happen in 2022 <...> Where can we get money to close all the heating systems? On the other hand, compared to our counterparts, the specific energy consumption is significantly higher than, say, in Finland," Aleksandr Vilesov, Director for Economics and Heat Sites, T Plus.

Inefficient heat supply market management

"The entire process needs to be observed. When it is broken and managed at different levels, and always in different ways. That, of course, leads to the problems that we have today," Denis Pasler, Chairman of the Management Board, Acting General Director, T Plus

"Today the (heat supply – *Ed.*) market is divided between the municipality, the region, the Ministry of Housing and Utilities and the Ministry of Energy <...> This market, despite its size, <...> quite frankly, remains without proper management," Sergey Esyakov, First Deputy Chairman of the Committee on Energy, State Duma of the Federal Assembly of the Russian Federation.

SOLUTIONS

Government support of investment in heat supply

"Of course, investment is needed; one way or another, these investments must be guaranteed by the state. If we look at the countries of Western Europe, we see how long-term investments allowed upgrading networks and putting them in order. Selling heat energy is one part of the business, but it is a larger business; there is also a part of it related to production of equipment that allows optimizing heat energy distribution or reducing losses," Mikhail Shapiro, Member of the Committee on Entrepreneurship in the Housing and Utilities Sector, Chamber of Commerce and Industry of the Russian Federation; General Director, Danfoss.

Establishing programmes for emergency utility networks

"We have a very good programme with the Ministry of Construction: relocation from emergency housing <...> It seems to me that it is possible or even necessary to consider establishing such programme on emergency utility networks at the government level," Alexey Tsydenov, Head of the Republic of Buryatia.