CUTTING THE TENTACLES OF RUSSIAN ENERGY ‘OCTOPUS’

DiXi Group follows on the series of materials aimed at exploring the foreign ties of key Russian energy companies for elaboration of proposals for expanding sanctions limiting the international influence of Russian energy sector.

INTER RAO

The paper was prepared with the support of the International Renaissance Foundation. The material reflects the position of the authors and does not necessarily reflect the position of the International Renaissance Foundation.
INTER RAO IS THE ONLY OPERATOR OF ELECTRICITY EXPORTS AND IMPORTS IN RUSSIA ENGAGED IN PRODUCING, SUPPLYING, AND DISTRIBUTING ELECTRICITY. YOU CAN FIND ALL CRUCIAL ‘TENTACLES’ OF THIS RUSSIAN ENERGY ‘OCTOPUS’ BELOW TO SEE WHERE THEY CAN BE CUT OFF.

North America

- UNITED STATES
  - General Electric

South America

- PERU
  - possible modernization projects
- ECUADOR
  - supply of equipment for power plants
  - Celec
- ARGENTINA
  - Construction of Chihuido HPP

Asia & other

- CHINA
  - 26.2% of company’s exports (2020) with the lasting increase

- KAZAKHSTAN
  - 10.8% of company’s exports (2020), not commercial
  - Ekibastuz GRES-2 (50% share)
  - possible JV to assure commercial supplies

- ARMENIA
  - Electric Networks of Armenia JSC (subsidiary)
  - Hrazdan Energy Company (subsidiary)

- CUBA
  - construction of four new power units of 200 MW each
  - modernization of 10 power units with 1 GW total installed capacity
  - delivery of equipment
  - Energoimport

Please note only the most crucial connections are reflected
Crossed marks reflect assets/connections the company has withdrawn/suspended
INTER RAO’S TENTACLES SORTED OUT

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**Europe**

**GERMANY**
- SAP

**FINLAND**
- 22.5% of company’s exports (2020)

**POLAND**
- 1,825 million kWh (2020)
- IRL Polska (subsidiary)

**TURKEY**
- Trakya Elektrik TPP (478 MW) concession
- Akkuyu NPP (share – 0.821%)
- Trakya Elektrik (subsidiary)

**GEORGIA**
- 6% of company’s exports (2021 forecast)
- 2 HPPs of 227 MW (Khrami HPP-1, 2)
- 22% of the market (2020)
- 6,098 km of power networks
- 10 service offices
- Telasi/Telmiko (subsidiary)

**MOLDOVA**
- Kuchurgan power plant or MGRES (1,700 MW of available capacity), 90.3% of production in Moldova (2020)
- • CJSC "Moldavskaya GRES" (subsidiary)
- • S.A. Energocom

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**AUSTRALIA**
- WorleyParsons

**MONGOLIA**
- modernization of Ulaanbaatar CHP-3
- • 2019: exports 372 million kWh, imports 27 million kWh

**AZERBAIJAN**
- 2019: exports 91 million kWh, imports 219 million kWh

**TAJIKISTAN**
- Sangtuda 1 HPP (75%-1 shares together with Rosatom)

**GERMANY**
- SAP

**NORWAY**
- Trading

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HOW TO CUT? INTER RAO’S TENTACLES

TAKE ACTIONS TO CURB INTER RAO’S MARKET POWER IN MOLODOVA AND GEORGIA

Inter alia, Inter RAO subsidiary CJSC "Moldavskaya GRES" should be limited in the access to international financing and technologies, and further support for Ukrainian electricity export to Moldova should be provided. The Georgian subsidiary Telasi should be considered for asset acquisition (by nationalization or purchase), possibly based on results of the investigation into violation of market rules. Regulatory oversight over Telasi/Telmiko compliance with unbundling requirements should be also supported.

IMPOSE POLITICAL AND EXPAND PERSONAL SANCTIONS

Inter RAO should be delisted from the participants of the UN Global Compact and excluded from the Carbon Disclosure Project (CDP) international rating of the organization, and representatives of Board members and the managing team should be added to the sanction lists.

PREVENT FURTHER STRENGTHENING OF THE COMPANY’S POSITION IN OTHER MARKETS (LATIN AMERICA, AFRICA, SOUTH CAUCASUS, AND CENTRAL ASIA)

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LIMIT THE COMPANY’S TRADING CAPABILITIES, NOTABLY IN EUROPEAN DESTINATIONS

Following the Nord Pool example, other countries still involved in the electricity trading with Inter RAO, such as Georgia and Kazakhstan, should suspend operations. Inter RAO subsidiaries as Inter RAO – Export, RAO Nordic Oy, AB INTER RAO Lietuva, SIA INTER RAO Latvia, INTER RAO Eesti OU, IRL Polska Sp. z o.o., LLC Inter RAO Georgia should also be sanctioned.

DO NOT ALLOW PARALLEL IMPORTS OF GE TURBINES TO RUSSIA, INCREASING CONTROL OVER RELEVANT TRANSACTIONS

Western partners shall guarantee that GE gas turbines, its components, or technologies won’t be brought to Russia via parallel imports as it is allowed by the Russian authorities. JV for the turbines production in Russia shall be suspended, so that Inter RAO would not relaunch it without the permission of GE as technology provider. requirements should be also supported.
PJSC “Inter RAO UES” (Inter RAO) is a Russian diversified electricity holding company. It ranks second in the Russian industry by installed capacity and third by electricity generation, accounting for more than 9.6% of Russian electricity production and less than 18.2% of the Russian retail electricity market.1

With the proper place among the largest Russian energy players, Inter RAO was sidelined in the context of international sanctions. Such a decision was probably made since 83% of the company’s revenues are the generation and supply exclusively in Russia, and the company has a relatively limited dependency on international financial instruments and technological support.

However, leaving Inter RAO out of sanctions talks and actions is not reasonable. Why should Inter RAO be sanctioned?

First, the company is the only participant in export-import operations in the Russian wholesale electricity and power market. With this unique license, it has a special market and political status, serving as a Russian electricity ‘envoy’ in the regional and, to a lesser extent, global arena. That was, in fact, the company’s original function back to its creation in 1997 as the subsidiary of OAO “RAO UES”, responsible for exports and imports of electricity.3

Second, the company still generates part of its revenues abroad, despite its well outlined recent strategy of localization and withdrawal from foreign markets. Namely, in 2020 foreign assets brought 2% of revenues and 3% of EBITDA4 (in 2019 – 2% and 5%, respectively)5, and trading operations, mostly concentrated in Europe, generated 5% of revenues and 6% of EBITDA (in 2019 – 8% and 13%, respectively)6.

Third, even without rising foreign revenues, Inter RAO extensively exercises its influence abroad, especially in the former Soviet countries, often intending to undermine democratic transformations and energy reforms. Prominent examples of such behavior is halting the electricity supply to Finland after the country announced NATO accession plans7 as well as persistent influence on Moldova using major production facility in the breakaway region of Transnistria.

The company is listed as strategic on the state level8, and its publicly stated aim is to realize the strategic interests of the Russian Federation abroad9. The Kremlin’s political influence is the primary motivation for the company’s foreign economic activity, which poses threats for the countries where it operates.

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1 Inter RAO Annual Report 2020, p. 39
2 Inter RAO, Strategy
3 Inter RAO Annual Report 2020, p. 29
4 Earnings Before Interest, Taxes, Depreciation, and Amortization
5 Inter RAO Annual Report 2020, p. 101
6 Ibid.
8 Inter RAO Annual Report 2020, p. 4
9 Ibid.
We can define five necessary aspects the Western community should work on to limit the ability of Inter RAO to support the Russian war machine and expand the Kremlin’s political influence abroad.

1. TAKE ACTIONS TO CURB INTER RAO’S MARKET POWER IN MOLDOVA AND GEORGIA

Since the start of unprovoked and unjustified Russian full-scale aggression in Ukraine, both Moldova and Georgia have not joined the Western sanctions, despite the apparent support of Ukraine by their societies. The blatant dependence of their energy systems on Russia is one of the reasons why the governments of these countries remained less vocal. Inter RAO activity plays a significant role in this regard.

MOLDOVA

Kuchurgan power plant or MGRES, de-facto owned by Inter RAO since 2005, is the source of 90.3% of electricity production in Moldova (2020) and app. two thirds of the country’s consumption. The facility is working entirely on gas supplied from Gazprom in the controlled by Russia breakaway region of Transnistria enabling Russia to limit or halt electricity supply as political leverage as it was in 1998, 2004, and 2005.

Since May-June 2022, after successful synchronization with ENTSO-E of both Ukraine and Moldovan power systems, Ukrainian companies Ukrhydroenergo and Energoatom were able to cover up to 30% each of Moldova’s electricity needs. Even before the synchronization, imports from Ukraine allowed Moldova to balance its high dependency on supplies from MGRES. Also, the planned Vulcănești-Chișinău and Bălți-Suceava power lines, connecting Moldovan and Romanian electricity systems would bring both commercial opportunities and security benefits.

However, even with additional imports from Ukraine and, in mid term, from Romania, Moldova’s Energocom is forced to negotiate and maintain contact with Inter RAO to ensure electricity supply. Moreover, Russia still could impede electricity transmission from Ukraine to Moldova, as six out of seven high-voltage (330 kV) Ukraine-Moldova interconnection points are located in Transnistria, and four of these lines are connected to the MGRES transformer substation. Meanwhile, Inter RAO abuses its power by neglecting the instructions of Moldelectrica (Moldovan TSO) and therefore being responsible for the major imbalances, as well as by increasing the electricity cost for Chișinău.

Apart from further support for the technical and market integration of Ukrainian and Moldovan energy systems with the European grid, it is crucial to limit Russia’s ability to perform energy blackmail against Moldova. Therefore, it is essential to limit access to the international financing and technologies for Inter RAO subsidiary CJSC «Moldavskaya GRES» and to provide further support for Ukrainian electricity exports to Moldova as a way to decrease the share of MGRES in the country’s electricity supply and to strengthen Energocom’s bargaining position towards Inter RAO.

RECOMMENDATIONS
GEORGIA

Georgia is connected to Inter RAO on many levels, while the country receives up to 6% of the company’s exports24 and Inter RAO owns the Khrami HPP complex, responsible for 3.6% of Georgian generation25 as well as 22% of supply via 75% ownership in Telasi26 which controls distribution and sale (via Telmiko) of electricity in Tbilisi. Moreover, Georgia is also constrained by legal obligation, as the Stockholm arbitration ruled in favor of Inter RAO in case against Georgia (to pay $80.5 million as compensation for losses due to GEL value depreciation by increasing the electricity tariff)27,28.

As for now, to limit the Russian influence on Georgian energy security, acquiring Telasi assets in Georgian jurisdiction (by nationalization or purchase) should be considered. In addition, Georgian authorities would need support for proper regulatory oversight over compliance29 of Telasi as distribution system operator and Telmiko as universal supplier with applicable rules (unbundling was completed in 202130). This would be particularly important given the inspections run by the Georgia’s Ministry of Finance after complaints of Telmiko consumers regarding miscalculated utility bills31. Georgia should also receive support in considering its ongoing appeal on the Stockholm arbitration decision32.

2. PREVENT FURTHER STRENGTHENING OF THE COMPANY’S POSITION IN OTHER MARKETS (LATIN AMERICA, AFRICA, SOUTH CAUCASUS, AND CENTRAL ASIA)

Outlying regions (Latin America & Africa)

In these regions, similarly to Rosatom33, Inter RAO methodically promotes itself as a provider of technology and engineering services. To limit Russia’s ability to execute malign influence on the respective countries using major energy projects as a leverage, Western companies and governments should block or, under certain political conditions in such conflict-torn jurisdictions as Ethiopia34, become competitors in those current or possible projects.

<table>
<thead>
<tr>
<th>Country</th>
<th>Project/Supply</th>
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<tbody>
<tr>
<td>ECUADOR (Celec35)</td>
<td>supply of equipment for power plants36</td>
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<tr>
<td>ARGENTINA</td>
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<td>PERU</td>
<td>possible modernization projects38</td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>modernization of Melka Wakena HPP39</td>
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Countries neighboring Russia’s energy system can be affected directly through export supplies and integration steps.

Inter RAO is active in Kazakhstan (destination of 10.8% of the company’s exports in 2020, however on non-commercial principles of synchronous operation of power systems40), trying to ensure commercial supplies41, in Tajikistan as a shareholder in Sangtuda 1 HPP (75%-1 shares together with Rosatom)42, and in Azerbaijan (electricity exports and imports43). Also, special attention should be paid to Russia’s integration plans within the Eurasian Economic Union to form a common electricity market with Armenia, Belarus, Kazakhstan, and Kyrgyzstan44. Those connections could have political implications; therefore, Western partners should monitor them.

24 Neftegaz.ru. Интер РАО рассматривает возможность прекращения экспорта электроэнергии в ЕС
25 Inter RAO Annual Report 2020, p. 98
26 Ibid.
27 Civil.ge. Georgia Ordered to Pay USD 81 Min to Russian Energy Company
28 Jus Mundi. Gardabani, Inter RAO and Telasi v. Georgia (II)
29 IPN.ge. GNERC to start monitoring in «Telasi» and «Telmeko» from today
30 Energy Community Annual Implementation Report 2021
31 Agenda.ge. Finance ministry investigators to inspect Tbilisi electricity distribution company
32 Zazidis.info. Russian Inter RAO demands Georgia to pay 80.5 $ million
33 Dixi Group. Cutting the tentacles of Russian energy ‘octopus’ – Rosatom
34 US Department of State. A Perspective on the Ethiopian-U.S. Relationship After a Year of Conflict
35 ПЕРЕТОК.РУ. Россия и Эквадор договорились урегулировать разногласия по проектам «Интер РАО»
36 Ibid.
37 РИА Новости. Россия и Аргентина подписали протокол по проекту ГЭС «Чиуидо-I»
38 Inter RAO Annual Report 2020, p. 113
39 ТАСС. Эфиопия надеется на участие «Интер РАО» в реконструкции ГЭС в республике
40 KOREM. Current therapy: RF can double the supply of electricity to Kazakhstan
41 Интерфакс. «Интер РАО» создаст в Казахстане СП для поставок электроэнергии
42 Neftegaz.Ru. Россия и Таджикистан обсудили работу Сангтудинской ГЭС-1 и возможности экспорта электроэнергии
43 Inter RAO Annual Report 2020, pp. 38, 110
44 Ibid.
3. DO NOT ALLOW PARALLEL IMPORTS OF GE TURBINES TO RUSSIA, INCREASING CONTROL OVER RELEVANT TRANSACTIONS

Since 2017, Inter RAO has worked under government directives to deepen import substitution and localization⁴⁵. The most important project is own production of gas turbines.

In September 2020, Inter RAO and General Electric (GE) signed agreements providing for the expansion of partnership in localization of production and maintenance of large-capacity gas turbines in Russia. GE committed to sharing expertise, including the transfer of relevant technologies and expansion of activities of a joint venture with Inter RAO – Russian Gas Turbines (RGT).⁴⁶

RGT plant in Rybinsk was planned as the self-sufficient production facility for 6F.03 gas turbines with a single capacity of up to 88 MW and GT13E2 gas turbines with a capacity up to 210 MW, while RGT had to receive rights to produce, maintain and sell those gas turbines in Russia and abroad⁴⁷. As for now, the RGT facility in Rybinsk produces only 6F.03 gas turbines with a capacity of 14 turbines annually⁴⁸. After Russia’s invasion of Ukraine, General Electric announced the suspension of activities in Russia⁴⁹, and the mentioned agreement was not implemented to the full extent. Therefore, the facts that the Russian Ministry of Industry and Trade has included General Electric gas turbines in the list of goods allowed for parallel imports⁵⁰ is alarming. The document says that the import of goods under code 8411, which refers to turbojet and turboprop engines and gas turbines, is allowed.

In this context, parallel imports seem to be a loophole, supported and promoted by the Russian state with the newly introduced legislation⁵¹, for bypassing sanctions, and it has to be addressed by both GE and Western governments in terms of increasing control over relevant trade transactions. In this context, it is essential to ensure that the production at Russian Gas Turbines is suspended and that Inter RAO does not relaunch production of the turbines based on Western technology without permission, as it would be treated as a theft of technology.

4. IMPOSE POLITICAL AND EXPAND PERSONAL SANCTIONS

Inter RAO should be a subject of political exclusion. For instance, the company should be delisted from the participants of the UN Global Compact⁵² and excluded from the Carbon Disclosure Project (CDP) international rating of the organization⁵³. Same should apply to business associations in the jurisdictions of the company’s activity.

Despite Inter RAO officials - Chief Executive Boris Kovalchuk⁵⁴ and Chairman of the Board Igor Sechin⁵⁵ - being on the personal sanctions lists, such restrictions should also be expanded to other representatives of the Board members and the management team.

5. LIMIT THE COMPANY’S TRADING CAPABILITIES, NOTABLY IN EUROPEAN DESTINATIONS

After Russia halted electricity supply to Finland following the NATO accession announcements⁵⁶, Nord Pool has decided to stop trading operations with Inter RAO meaning that the Baltic states would not buy Russian electricity anymore. This fascinating example should also be set for other countries still involved in the electricity trading operations with Inter RAO, such as Georgia and Kazakhstan.

To limit Inter RAO’s international activity and influence, the following Inter RAO subsidiaries should also be sanctioned:

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⁴⁵ Inter RAO Annual Report 2020, pp. 38, 179
⁴⁶ Neftegaz.ru. Inter RAO and GE expand partnership in localization of production of high-capacity gas turbines in Russia
⁴⁷ Ibid.
⁴⁸ ООО «Русские Газовые Турбины»
⁴⁹ Reuters. GE suspends its operations in Russia
⁵⁰ Радио Свобода. Минпромторг опубликовал перечень брендов для «параллельного импорта»
⁵¹ Настоящее время. Госдума приняла законопроект, позволяющий импортировать в Россию товары без разрешения правообладателя
⁵² Inter RAO Annual Report 2020, pp. 38, 119
⁵³ Ibid.
⁵⁴ Коммерсантъ. «Интер РАО» может уйти с биржи
⁵⁵ Forbes. Сірий кардинал Кремля. Як глава «Роснефти» Ігор Сєчин сколотив нечуваний для держслужбовця капітал у $800 млн. Історія від Forbes
⁵⁶ BBC News. Russian operator to suspend electricity supply to Finland
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<tr>
<td>Inter RAO Export</td>
<td>Agent promoting Inter RAO products and technologies in the global markets&lt;sup&gt;57&lt;/sup&gt;</td>
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<tr>
<td>RAO Nordic Oy</td>
<td>Trading with Scandinavia/Nord Pool&lt;sup&gt;58&lt;/sup&gt;</td>
</tr>
<tr>
<td>AB INTER RAO Lietuva</td>
<td>Electricity supplier in Lithuania and other Baltic states&lt;sup&gt;59&lt;/sup&gt;</td>
</tr>
<tr>
<td>SIA INTER RAO Latvia</td>
<td>Electricity supplier in Latvia&lt;sup&gt;60&lt;/sup&gt;</td>
</tr>
<tr>
<td>INTER RAO Eesti OU</td>
<td>Electricity trade in Estonia&lt;sup&gt;61&lt;/sup&gt;</td>
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<tr>
<td>IRL Polska Sp. z o.o.</td>
<td>Electricity trade in Poland&lt;sup&gt;62&lt;/sup&gt;</td>
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<tr>
<td>LLC Inter RAO Georgia</td>
<td>Electricity trade in Georgia&lt;sup&gt;63&lt;/sup&gt;</td>
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<sup>57</sup> Inter Rao, International Business
<sup>58</sup> Inter RAO Annual Report 2020, pp. 38, 109
<sup>59</sup> Delfi. Судьба компании Inter Rao Lietuva повисла на волоске, клиентов компании готовы перенять другие игроки
<sup>60</sup> Inter RAO Annual Report 2020, pp. 38, 109
<sup>61</sup> Ibid.
<sup>62</sup> Ibid.
<sup>63</sup> Ibid.