

Another Year, Another Electric Shock for Armenia

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Russian-owned power company seems unable to balance its books without hefty annual price rises.

Plans for an electricity price rise of over 40 per cent, the third increase three years running in Armenia, have caused outrage at the way the power company – a national monopoly under Russian ownership – is being run.

The head of Armenia's Public Services Regulatory Commission, Robert Nazaryan, has warned that his institution is likely to approve an application to raise prices from the Electric Networks of Armenia company (ENA).

"Electricity is going to get more expensive, but it isn't clear by how much," he said at a June 2 press conference, adding that the commission would announce what it was agreeing to on June 9 or 10.

Nazaryan said energy prices were dictated by a range of factors, in this case the declining value of the national currency against the US dollar, making the imported natural gas and nuclear fuel used in power generation more expensive; plus the fact that Armenia was not getting much rain this year, slowing hydroelectric capacity.

Nuclear power, hydroelectric dams and power stations running on imported Russian natural gas each account for roughly about a third of Armenia's total electricity output, although the proportions vary from year to year.

ENA applied to Nazaryan's commission in May for the daytime tariff to go up from 42 to 59 drams per kilowatt-hour (about 12 US cents) and the night-time rate from 32 to 49 drams (ten cents). If approved, these rates will represent increases of 41 and 53 per cent, respectively.

Three previous increases in 2009, 2013 and 2014 mean that ahead of the next hike, electricity is costing consumers 67 and 165 per cent (daytime and night-time) more than it did at the start.

When Nazaryan announced he was approving the last price rise a year ago, he seemed to suggest that it was a one-off measure that would fix ENA's problems.

"If we don't make this increase, then in two or three years' time, you will be justified in accusing us of failing to secure stability," he told reporters at the time. (See **Armenians Shocked at Electricity Price Rise** .)

The government is backing the proposed further increase. Energy Minister Yervand Zakharyan says ENA has built up debts and losses of 109 billion drams (227 million dollars) in the last three years, and if it fails to recover the money, it will be taxpayer who will have to pay the debts, because the loans were guaranteed by the government.

He attributed the shortfall to mismanagement and fraud without elaborating what this meant, or what steps would be taken to address it.

"Under the circumstances, after the dram's devaluation at the end of last year, and the losses and debts that have built up, new price tariffs are inevitable," the minister said.

ENA is the monopoly power company in Armenia, and was formerly state-owned. In 2006, however, it was sold to the Russian firm Inter RAO UES (United Energy Systems), in which the Kremlin is the majority shareholder. Critics of its price increases thus view them not just as the product of poor management, but also as an example of the political control Moscow wields in Armenia. Russia's **Gazprom similarly owns Armenia's gas distribution company** including the pipeline network, and Moscow maintains a military base in the country. (See **Murder Case Strains Relations with Moscow** on how the historically strong relationship has recently come under stress.)

Vaghinak Shushanyan belongs to a campaign group called No to Robbery that is fighting the electricity price hike and threatening street protests if it goes ahead.

In his view, "The authorities in Armenia and the Russian monopoly owner just want to rob Armenian citizens."

To make matters worse, the 3,000 pages of documents published to justify ENA's case for a price rise included evidence that the company was paying out 12.5 million dollars annually to rent luxury housing

and cars.

Vahagn Khachatryan, an economist with the opposition Armenian National Congress party, also spotted items in ENA's accounts for 2013 and 2014 that showed charity donations of 1.3 billion drams, some 2.7 million dollars, over that period.

"So they aren't managing to run the company -they're making a loss -but they're still doing charity. And we, the citizens of Armenia, have to pay for it all," Khachatryan said.

Responding to concerns about wasteful spending, Nazaryan assured reporters that the rent of cars and housing would not be listed as allowable items when his commission signed off on the price increase.

"There won't be any element of luxury there," he said.

In one of the poorest former Soviet states, any increase in essential outgoings is going to hit consumers hard. When ENA first raised its prices in 2009, unemployment stood at 6.6 per cent of the population. Last year it was 17.8 per cent.

The International Monetary Fund is predicting an economic contraction of one per cent this year. It says Armenia is the only country in the region whose gross domestic product has not at least recovered to 2009 levels following the global financial crisis - and it warns that it might not get there until 2020.

Although he belongs to the ruling Republican Party, the speaker of parliament Galust Sahakyan has expressed concern about the impact a further increase will have.

"An increase in power prices on this scale won't just hit people's pockets, it will do great damage to our economy," he told fellow-parliamentarians.

Rising electricity costs will have wider inflationary effects, as local manufacturers will have to raise retail prices as production becomes more expensive.

"Any increase in costs is going to have a negative impact on economic growth rates," Arsen Ghazaryan, head of the Union of Industrialists and Entrepreneurs told a recent briefing

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