



A Company Bigger than the Nation Itself (4)

(/k/best_of_err/954325b3-8d36-4c7a-957c-2e5a1e1b7bb9)

09.05.2011 09:40

Eesti Energia, once a local electric monopoly, has grown to be an international energy concern. Operating abroad under the name Enefit, the company recently purchased the largest privately-owned shale reserves in the state of Utah. ERR News spoke with Eesti Energia CEO Sandor Liive.

Eesti Energia claims its oil shale retorting technology is “the only commercially proven technology available.” My understanding is that some parts of your Utah lease are on US government R&D land and that if your technology can be proven in the United States, you stand a chance of getting access to vast oil shale reserves on US government land holding 70 percent of the world’s oil shale resources. If what you claim about the technology is true, then we’re talking about very significant sums of money. Is that correct?



Photo: Postimees/Scapix

(<http://static.err.ee/gridfs/C34520B13681884D95C28E3AB2A359FBB78A23A3CCAA9937E4CDD88D29E00955.jpg?width=1920>)

What you describe is the potential big, big upside. Let’s describe now the bad, bad downside. We spent 29 million euros to buy it, and if we don’t get all the permits and paperwork, then we’d be unable to do anything except use it for hunting. Those are the two extremes. Reality, of course, and our plan, is in between.

Estonia has more than 90 years experience in oil shale. We started in the 1920s with oil. Post World War II, in 1950, a pilot plant was built to employ a new technology using a solid heat carrier. In 1980 it was scaled up many times, and two units of Russian design were built in the Narva region. But the units didn’t work properly. During the last five years we have devoted attention to it, changed many components, and made this updated design work. Last year, these two units produced more than one million barrels of shale oil. Not per day, unfortunately, but per year.

For the Enefit-280 [retort] we are constructing now, we combined our physical operation experience with Outotec, a German-Finnish company, and their experience with scaling up. We scaled up twice the existing facility, making it efficient and more environmentally friendly, including a 35-megawatt power generation unit. Next year in April construction will be complete. If that is successful, we’ll build at least two more units in Estonia. Our aim is to have 20,000 barrels per day in Estonia. Our aim is to prove this technology by 2016 and it will be the model for further development of technology in our other projects such as Jordan and the United States.

What makes us different is that other commercial-scale technologies use gas as the heat carrier and space between oil shale pieces is required for the gas to get through. Other technologies use only the big pieces of shale - about one-third of the mined product is small particles and they just put it aside or put it back in the mine. Other technologies are not able to process all the oil shale, but we are. And that’s what led us to America.

What is your current status in the US?

There are no licenses in place to mine and we’re applying. I think that will take at least four years in the US. The design has not been tested yet, and the technology we will apply there is a further development of our existing technology in Estonia and so isn’t fully proven yet. We’re optimistic. We’ve tested the oil shale in labs and we’ll soon test it in our bench-scale pilot which we have with Outotec in Frankfurt, a copy of our Enefit-280.

You paid 29 million euros for the Utah lease and have announced you’ll spend another 77 million there by 2016. How close does that money get you to actual production?

Up to 100 million euros, basically 100 million dollars, is for paperwork mainly. There is no construction for this money. It’s design and additional geological surveys if needed. The number in our Jordan project is roughly similar.

Your ambition in the US is to produce 57,000 barrels per day?

Roughly, yes. That figure is coming from the previous business plan and could change. Minimum is normally 20,000 to 30,000 barrels.

Developing oil shale deposits can succeed only when your production costs come in below the price of crude oil. I've read that a RAND Corporation survey concluded that the crude oil price would need to stay above 70 to 95 dollars per barrel for oil shale production to be viable. Assuming your technology proves out as you expect, what does the price of crude oil need to be for you to make money with your technology?

In the case of Estonia, where our construction is in its final phase and we have signed contracts, we'll be well off when crude oil is at 60 dollars per barrel. In the US, it will be higher, say 70 dollars.

Assume 2016 arrives and your paperwork is in order, you're licensed to produce in the US, and your technology works as you expect. I've read estimates that you may need a billion dollars to invest over 10 or 12 years. Eesti Energia's CFO has said in an interview that you may be looking for a partner. Is going public through an IPO off the table as an option? Has the government ruled that out?

First of all, don't link an IPO with the American project. We have huge investments in Estonia, and we require new equity for those. Discussion is going on at the moment. I don't believe that an IPO would come just because we'd like to invest in the US.

Concerning the American project, with foreign projects our idea is to be a project developer. In Jordan, we spent roughly three million dollars, got the concession, sold one-third of the company at a ten-times higher valuation than the money we spent. We own 65 percent of the project.

We grab land, a resource, and we turn it into a reserve. In the US, we will have to do the same. The logic is simple: the more the project is advanced the higher the value; the earlier you sell the less you get. Theoretically, it could happen that after five years, maybe the financial community believes in it, and will lend us three billion dollars against our 2.1 billion barrels [Utah resource, -ed.]. Or somebody comes and says he's happy to take 30 percent for two billion. We can't exclude it.

The beauty of the US project is that we are fully in control of time. We have no obligation to do anything. If we don't like the baseline measurement after a year and a half, or if we don't like US energy policy at the time, we have enough time to wait. We are not in a hurry. Time is not ticking with this concession.

If Estonia really has some industry which is unique, you can make a company bigger than Estonia. One of the problems with Estonia is that sometimes our ambitions are too low. People like to talk about risks and not about opportunities.

To make an Estonian company bigger than the nation itself, is that a concrete goal you actively discuss around here?

We're not discussing it; we're just doing it.

You've come under a lot of criticism because of your salary [157,000 euros per year, -ed.], which is high by local standards, but rather modest by international standards. To handle big projects like this requires continuity, employees who stick around a while. Does the controversy over what you can pay yourself or what you can pay others get in the way of growing the business?

So far I've been successful in hiring foreigners at very high Estonian salaries. But it is an issue. If we're working internationally we can't get stuck comparing my salary with the prime minister's.

But you're sending people out to negotiate deals worth hundreds of millions of euros. If that person is earning a salary which is not competitive, isn't that a scenario which could potentially invite corruption? And I don't pose this as an Eesti Energia question, but rather one concerning all big state businesses. Is there a solution on the horizon?

Part of the problem is that we used to be a local electric monopoly and we have become an international energy company, but in most people's minds we are still the local electric monopoly.

When I joined in 1998 as CFO, there was no investment, a liquidity crisis, and people were not motivated. Some people told me they were afraid to say in public where they worked. We have turned the company around and people are proud of it. When the prime minister goes abroad he says Estonia has IT and oil shale. Eesti Energia has been the most attractive employer in Estonia for two years. I think attitudes toward compensation are starting to change. If not, development will stop.

The solution is that we have entrepreneurs on the supervisory board. And there has to be an understanding on the supervisory board, in government, and in the general public that energy has become big business.

Interview by Scott Diel

See also

- 11.06 Eesti Energia Opens Testing Facility in Frankfurt
<http://news.err.ee/v/economy/694fcf9d-f46d-4ca1-9ebc-cd969b199ee1>
- 11.10 ETV: Officials Pushed Through Flawed Power Plant Contract
<http://news.err.ee/v/politics/96e81bea-dc67-498e-af4a-6ce87842fe05>
- 03.04 Eesti Energia Doubles Lobbying Expenses
<http://news.err.ee/v/economy/40c8df3c-3234-44be-8c93-1a454d19f2e7>
- 03.11 Analyst Raps Government for Taking Eesti Energia Dividends
<http://news.err.ee/v/economy/f02f070f-cd46-4452-b6d4-099e597ac305>
- 14.10 Top Companies Gained 42% in Value Last Year
<http://news.err.ee/v/economy/2d6f8f18-c4f1-41cb-8b65-60b8d4798690>
- 11.10 Enefit Expects Building of Jordan Power Plant to Start in 2012
<http://news.err.ee/v/economy/90eabdbe-0bb6-45d6-8821-2b17d1844659>
- 28.09 Study: 70% of Balts Distrust Businesses
<http://news.err.ee/v/economy/2dc5e177-f90b-45f3-aca8-79074611715f>
- 22.07 Playing Devil's Advocate
<http://news.err.ee/v/opinion/f681ffcc-33f5-4a0d-b184-121daa286c3c>
- 01.07 Investing Abroad: Meet Uintah County
<http://news.err.ee/v/economy/4bfae220-564e-4f73-a14b-7f1587af1327>
- 28.06 Enefit Gets Lookover from Utah Officials
<http://news.err.ee/v/economy/5b56f965-02fd-4adb-8cf5-6988361e1550>
- 08.06 Narva Engineers Protest Over Union Agreement
<http://news.err.ee/v/politics/5ab24329-947a-4997-9a21-55af66ac1fbf>
- 17.05 Promises, Promises
<http://news.err.ee/v/opinion/553869b2-3dc1-41e5-87f9-a7ae0ad9f779>
- 10.05 Stock Exchange Searches for New, Exciting Player
<http://news.err.ee/v/economy/a1d94281-d3f5-450c-8e66-03cc066c4abf>
- 10.03 Eesti Energia to Buy US Oil Shale Firm
<http://news.err.ee/v/economy/b03f1357-cd90-4a5b-b98c-6bdd21d65304>

Comment

Name

Enter comment



Type the text

Privacy & Terms (<http://www.google.com/intl/en/policies/>)

Submit

Read comments (4) (/k/best_of_err/954325b3-8d36-4c7a-957c-2e5a1e1b7bb9)

MORE **ALL NEWS****Guitar Hero**

03.01

Amp designer Mike Scuffham puts the mojo back in music.

http://news.err.ee/v/best_of_err/464e9e16-65aa-492d-a2ed-c28b9ea46f41

**2012: A Look Back**

31.12

(<http://news.err.ee/v/features/b1eb8e09-c5b0-4173-bcf0-c72fb2a89db9>)

**A Company Bigger than the Nation Itself**

09.05

Eesti Energia, once a local electric monopoly, has grown to be an international energy concern. Operating abroad under the name Enefit, the company recently purchased the largest privately-owned shale reserves in the state of Utah. ERR News spoke with Eesti Energia CEO Sandor Liive.

(http://news.err.ee/v/best_of_err/954325b3-8d36-4c7a-957c-5a1e1b7bb9)

Uudised	Programmid	Varia	ERR	Arhiiv
Uudised (http://uudised.err.ee)	ETV (http://etv.err.ee)	Otse (http://otse.err.ee)	Üldinfo	Arhiiv.err.ee
Sport (http://sport.err.ee)	ETV2 (http://etv2.err.ee)	Meieoma (http://meieoma.err.ee)	(http://www.err.ee/sisu.aspx? (http://arhiiv.err.ee) s=6&a=4)	Koopiate tellimine
Teadus (http://teadus.err.ee)	Vikerraadio (http://vikerraadio.err.ee)	Raadioteater (http://raadioteater.err.ee)	Struktuur ja kontaktid (http://www.err.ee/sisu.aspx? s=10&a=70)	Filmi- ja videoarhiiv
Menu (http://menu.err.ee)	Raadio2 (http://r2.err.ee)	Ring (http://ring.err.ee)	(http://www.err.ee/sisu.aspx? s=7&a=15)	Dokumendiregister (http://err.ee/sisu.aspx? s=10&a=420)
Ilm (http://ilm.err.ee)	Klassikaraadio (http://klassikaraadio.err.ee/)	Valimised (http://valimised.err.ee)	(https://meie.err.ee/?page=pub_list_dynobj&desktop=10016&tid=11337)	Fotoarhiiv
	Raadio4 (http://r4.err.ee)	Pood (http://pood.err.ee)	Pressiteated (http://www.err.ee/sisu.aspx? s=10&a=421)	Töötajate arhiiv
	Raadio Tallinn (http://raadiotallinn.err.ee)		y=2013&s=11)	(http://www.err.ee/sisu.aspx? s=8&a=53)
			Tooted ja teenused (http://www.err.ee/sisu.aspx? s=10&a=422)	Dokumentiarhiiv
			Vabad töökohad (http://www.err.ee/sisu.aspx? s=25&l=1)	(http://www.err.ee/sisu.aspx? s=10&a=423)

Eesti Rahvusringhääling | Gonsiori 27, 15029 Tallinn, Eesti | E-post: err@err.ee | Tel: 628 4100 | Contacts (</v/features/97713596-4bf4-45eb-a65d-0443b1594515>) | Terms of usage (</v/features/7aa139c7-ad66-4648-ac1f-b54a7596dbbe>) | About ERR (<http://www.err.ee/default-en.aspx?s=31&a=32>)

Teoste avaldamine sel lehel on kooskõlastatud EAÜ/NCB-ga

