



## Red Mountain Energy Creative Solutions for 21<sup>st</sup> century energy

### What makes Red Mountain so competitive?

Born in 2000, the company could be described as still being in its infancy, yet has already demonstrated its rapid growth. This is due in part to its customer-centric approach to business, as Mr Smyslov explains.

"We put the customer first. When our customer succeeds, we succeed. Our strategy is to separate the work into two parts: first we select the right technology, then we research each of the suppliers to determine the optimum choice for a specific application."

"Today we have the  
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How can we improve the production and usage of energy? Pushing the boundaries with creative thinking is the key for Red Mountain Energy, as Rob Cockerill discovers during an interview with CEO Denis Smyslov.

"ENERGY, WHETHER its oil and gas, electricity or renewable energy sources, these are all areas where we are constantly looking for better ideas and solutions."

Those are the words of Denis Smyslov, CEO of Red Mountain Energy Corporation, as the company seeks to improve energy efficiencies.

The 21<sup>st</sup> century energy market presents a number of obstacles and opportunities going forward, all of which need to be addressed for a sustainable and productive future. At Red Mountain Energy, creative thinking and an 'outside of the box' approach to these challenges is combined with core business activities in the industrial gases industry, such as compression, air separation technologies, and oil & gas

processing.

The company is focused on the development of unconventional sources of energy, both building on and optimising its existing gas technologies and promoting this cause in its native Russian market.

### Out of the dark

Red Mountain Energy (RME) has been 'pushing the envelope' in Russia since the turn of the century and its formation in 2000, when the company arose out of the dark period of Russian industry's stagnation.

Despite the company's relatively short history, a healthy reputation has been established and as a decade of business approaches next year, the

drive to modernise its domestic market remains.

During our exclusive interview, Smyslov explains, "Red Mountain Energy Corporation was established in 2000 on the back of decades of stagnation in Russian industry. Even after the fall of iron curtain 20 years ago, economic transformation took considerably longer than expected."

"Most Russian companies were using inferior and outmoded technology and equipment and, not surprisingly, these companies produced non-competitive products which were not marketable outside of Russia."

"We are still not out of the woods! Take the oil and gas industry for example. Russia is still flaring associated gas which is wasteful and bad

for the environment. The steel industry too - most Russian steel plants were built over 50 years ago and are still using obsolete equipment which is energy-wasting."

"In 2000 I felt that Russia's need for modern technologies and processes was a high-potential market niche," Smyslov added. "Today we have the resources to fill that niche. At Red Mountain Energy, we combine the best and most experienced technical talent from US and all over the world with the knowledge of the local market specifics. We supply our customers with the best solutions for their technological needs. Our main task is to integrate leading technologies into state-of-the-art operating facilities in Russia and other former Soviet Union countries."

Implementing new technologies and ultimately, modernising a previously 'wasteful' Russian industry, has provided the backdrop for RME's impressive growth.

Building a wider geographical footprint is an inevitable next step for any company and RME is no different – Smyslov indicates that progression further afield is already on the company's radar.

### Geographical growth

Neighbouring markets such as the Ukraine and Kazakhstan are of interest to RME, while expansion into countries of a greater distance, like the US and China, is ongoing.

"It's a balance between the two (export and domestic business). We started our business in Russia because the country is well known to us. The Russian market is very promising and presents the best opportunity for us."

"At present," Smyslov says, "Red Mountain Energy has about 40 projects in progress, of which eight have been successfully commissioned in Russia and the Ukraine. Further afield we are making great strides, although I have to confess that it is quite difficult to get an order in a country where you cannot demonstrate your guarantees and where you do not have any plant running which establishes your capability."

"However, we do have several cryogenic projects in progress in North America and last year we were invited to participate in the construction of the first coal-to-natural gas project in the US and to engineer, design and supply large cryogenic air separation plants."

Given Eastern Europe's relatively close proximity to China, it wouldn't be too speculative to suggest the company could grow in-line with this rapidly emerging and booming economy.

Smyslov speaks of a 'deep respect' for Chinese companies which have gained experience in the latest technologies, and notes that cooperation with Chinese equipment manufacturers has already proved to be fruitful. "China is rapidly

**"Most Russian steel plants are still using obsolete equipment"**

▶ complete engineering staff to support all aspects of EPC projects: we develop a process, select equipment, design the facility and when the job is done, we hand you the key!"

"As you know, the Russian gas market has been dominated by a few suppliers, an undesirable situation which has prevented the development of healthy competition. We have broken this antiquated mould," Smyslov enthuses.

"We have a synergetic approach: we work with the best global manufacturers of machinery and the best global fabricators of pressure vessels; the key to making this happen is the experience and expertise of our Russian engineers."

### Manufacturing in Russia

"These are very difficult times," explains the Red Mountain Energy CEO. That was the answer to **gasworld's** intrigue concerning the state of the manufacturing industry in Russia.

The global manufacturing industry has been hit hard by the recession and is still suffering in the majority of regions around the world. Russia had been quick to react to the shockwaves rippling through its industry, but how do things stand at present?

Smyslov says, "Manufacturing output is falling at a record level, so is investment, and unemployment is rising. Manufacturing companies are faced with the lack of working capital, the debt is increasing, and they are not able to get a loan from the bank. It's estimated that the current fall in industrial production is about 20%! However a huge state cash injection into the manufacturing industry has helped companies to stay up so far." ▶▶

**Gases in the Ukraine**

After chatting with Mr Smyslov, it appears that the Ukraine industrial gas business is both complex and underdeveloped. There are a number of challenges to overcome, as Smyslov elaborates, "In the Ukraine the gas market is underdeveloped, just as it is in other countries of the former Soviet Union. The application areas for oxygen, nitrogen, argon and other specific gases remains limited throughout the Ukraine."

"Moreover, the captive conception inherited from the old days of the USSR still prevails, namely the rule that every gas consumer, must have its own ASU. As a consequence, a market of packaged gases which would lower costs for many smaller gas consumers is not being developed."

"At the same time, the Ukrainian market has an over-abundant production of liquid oxygen and liquid argon, due to the large ASUs which have been installed at steel facilities mostly in Eastern Ukraine. A significant part of these products is exported to Russia and Eastern Europe."

Despite an abundance of liquid product, questions remain over its quality and purity. This presents an opportunity to invest for the majors.

"The global gas market players have expressed a wish to set up their own ASUs in the Ukraine. Unfortunately, this new development has been delayed owing to the financial crisis."

"Recently, Red Mountain Energy has started up a liquid nitrogen generation plant for the Lukoil refinery facilities near Odessa. We are currently installing the oxygen plant for an iron and nickel plant in central Ukraine and we also won two more tenders in the Ukraine last year, but the projects have been postponed due to the financial crisis."



Red Mountain Energy is dedicated to advancing technologies in its native Russian industry.

expanding its worldwide market presence. For instance, Hangzhou Hangyang, our key partner in the cryogenic business, launches new projects in Europe and America every year!" he said.

Another country that could prove productive in future is a much more immediate neighbour – that of Kazakhstan.

Gasworld has previously identified the Ukraine and Kazakhstan as regions of high potential in future, with good reason. The latter is both vast in terms of land mass and rich in reserves of oil, metals and minerals too.

Our interview offered the opportunity to discover more about the Kazakhstan market, from the perspective of an Eastern European company with experience of operating in the



region. It seems that the much-talked about potential for industrial gases in the Republic is not without foundation, while we also learned that RME already has existing ASU projects underway in the country.

Smyslov explained, "Kazakhstan is a leading potential market for industrial gases in the former Soviet Union. The Kazakhstan government has increased expenditure in order to develop the country and stimulate economy recovery. This recent financing has sent out a positive signal to foreign investors, because it has led to the expansion of key industries like steel production and the chemical industry - and to a significant growth in gas consumption."

"At the same time there is a transport problem which prevents the development of the gas retail market. There is a reason for this: Kazakhstan is a vast country, there are only a few large outlying ASUs and the road system is woefully underdeveloped. This undermines both the bulk and the package market. There is a healthy market for the supply of oxygen, but nitrogen and argon are in extremely short supply."

"In Kazakhstan we have a few ASU projects in progress now and have started the design of a large LPG Recovery Unit for the South Oil company," he concluded.

When asked about the depth of resource in the region and whether the gas companies could be keen to capitalise on these natural assets, Smyslov was enthusiastic in his response.

"Kazakhstan has an abundant supply of accessible mineral and fossil fuel resources. However, there are only three refineries inside the country and this is not enough to process the total crude output. For this reason, a lot of crude oil is exported to Russia for further treatment. Coupled with the considerable long term perspective of oil, natural gas and mineral

extraction development, this means that there will almost certainly be a growth in gas demand in Kazakhstan."

**Energy evolution**

While keen to establish a wider geographical footprint, it's clear that the focus is very much on evolving our energy outlook now and in the years to come – an issue that is likely to become ever more important as our energy future unfolds.

This is a focal point that the company has previously alluded to, during its company profile with *gasworld* magazine in 2008

Back then, RME cited the 'need to make better use of energy resources'. Can we assume then, that this is still a key strategy?

"Absolutely! Our company mantra is 'how can we improve production and usage of energy?' We are all about energy. We are not tied to traditional approaches - we think 'outside of the box'. We bring creativity to our solutions."

"Red Mountain Energy will continue to push the boundaries. Our core business sees us engineer, design and build state-of-the-art facilities which improve energy production. Using the most efficient and reliable equipment available, we produce plants which exceed our customers' expectations!"

"As an energy and engineering company, we aim to develop unconventional sources of energy. That's why, apart from our main business activities in compression, air separation and oil and gas processing, we are investing in new energy developments such as CBM (coal bed methane) and coal gasification. CBM is one of the fastest growing energy sources of the 21<sup>st</sup> century, turning methane extracted from the coal mines into energy for domestic consumption. Gasification is a process which converts low-cost feedstock, like low quality coal and lignite, into syngas and high value products providing clean fuel or fertilizers or electricity. Together with Secure Energy, our American partner in coal gasification, we believe we can promote these new technologies in Russia."

Evidently the Russian company still has the development of its native domestic market at heart. This is further reflected in the projects that RME has underway at present and those anticipated for the future.

Additional challenges have arisen in light of the almost punishing global economic crisis, something that has served as a stimulus of its own for RME's future business direction.

"It is no secret that the financial crisis has caused great damage to the Russian steel industry, and in turn this has influenced our business activity," Smyslov said. "The challenge we faced was to re-orient our activity from the steel industry to the oil and gas market. And we



CEO Denis Smyslov will continue to push energy forward at Red Mountain Energy.

have succeeded! Last year we were successful in obtaining several orders for engineering and supply of gas processing plants."

"A project for a Dry Stripped Gas Processing Plant for Tatneft is expected to be launched in 2010. It will produce about 53,000 Nm<sup>3</sup>/hr of high value products: methane, ethane and nitrogen as a by-product. Another project which is important for us, is the engineering and construction of an LPG Recovery Plant in Kazakhstan. The new facility will annually produce around 50,000 tons of LPG from 100 million m<sup>3</sup> of feedstock gas."

Energy is again the buzz word as we discuss future direction and our fervent interviewee

**"We believe we can promote these new technologies in Russia"**

brings our discussion to a determined and confident conclusion. There's just no escaping the energy dilemma that engulfs us all and likewise, there's no escaping the pivotal role that the gas companies could play in this challenging cause.

Smyslov is unswerving as he closes, "We will continue to search for the best possible solutions to our current energy problems. We see non-traditional energy sources as a growing part of our business, while we are extremely aware of the

growing importance of how energy production and usage affects our environment and resources."

"We will find ways to improve the conversion of raw energy into usable energy. We see the need to package equipment and plants in a smart manner to reduce cost and time." □

**Denis Smyslov – A brief bio**

A graduate of Moscow's Institute of International Relations (MGIMO), Mr Smyslov is currently the CEO of Red Mountain Energy Corporation and actually one of the company's founders too.

Today he is responsible for business development in Russia and the former Soviet Union, having already transformed Red Mountain Energy into a global enterprise thanks to his 'tireless energy and world vision'.

Now at 42 years of age, Smyslov has complemented his graduation from MGIMO through the years, with the study of executive management at the Fuqua School of Business (Duke University) and numerous engineering courses in natural gas upstream and downstream, and power generation.

As well as enjoying time spent at home with his two children, Smyslov takes pleasure in ski touring, rock-climbing, mountaineering, and surfing.

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