

Introduction of Tariff Policy on Energy Conservation and Pollution Reduction

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I. Policy on Linking Coal and Electricity Prices

- The policy put forward in December 2004

Main content: in a certain period of time (no less than 6 months in principle), when the accumulated variation range of coal price exceeds 5%, 30% of the added cost shall be born by generation enterprises themselves, and 70% of that shall be recovered through the price adjustment conducted by state, in order to offset the additional cost for generation enterprises.

In 2005 and 2006, the policy on linking coal and electricity prices was conducted two times. In June and August of 2008, some of the conflicts between coal and electricity prices were resolved through certain resorts.

II. Differential Tariff Policy

Since June 2004,

the differential tariff policy has been implemented to some of high-energy-consuming sectors.

Eight Sectors: electrolytic aluminum, ferroalloy, calcium carbide, sodium hydroxide (caustic soda), cement, steel, yellow phosphorus, and zinc melting.

Three Categories:

1. The category to be phased out ---- surcharge is RMB 20 cents per kWh
2. The restrained category ---- surcharge is RMB 5 cents per kWh
3. The allowed and encouraged category

II. Differential Tariff Policy

- Since the issuance of differential tariff policy in June 2004, more than 2000 high-energy-consuming enterprises were shut down or phased out into other sectors. Among them, more than 70% fell into the category, which was to be phased out.
- By the end of 2007, 2204 high-energy-consuming enterprises performed differential tariffs, with a total surcharge of RMB 652 million.

III. Tariff Policy on Desulfurization

- In 2004, the tariff policy for encouraging environmental protection was put forward.

The electricity tariff for units equipped desulfurization facilities is RMB 1.5 cents higher than that of the units without desulfurization facilities.

From June 2008, the benchmark on-grid tariff of newly-operated units with desulfurization facilities shall be made public.

III. Tariff Policy on Desulfurization

- By the end of 2007, the installed capacity for coal-fired units with desulfurization facilities was 270 GW, accounting for around 50% of the total installed capacity of coal-fired units.
- In 2007, the volume of SO₂ emitted by electric power enterprises was 12.27 million tons, with a decrease of 1.23 million tons over 2006, falling 9.1%.
- Some electricity regulatory institutions conducted real-time on-line monitoring to the desulfurization facilities of generation enterprises.

IV. Tariff Policy on Renewable Energy

- Main Content:

First, the policy of on-grid tariff for renewable energy generation projects was constituted;

Second, the standard of network connection charge for renewable energy generation projects was formulated;

Thirdly, the composition of additional subsidy items for renewable energy tariff was defined;

Fourthly, the sources and standards of tariff subsidy for renewable energy was fixed;

Fifthly, the national allocation and balancing measures on surcharge and additional tariff subsidy for renewable energy generation was developed.

IV. Tariff Policy on Renewable Energy

Application Scope: units ratified for construction after 2006

On-grid tariff: government-made price, government-guided price, and tender price

Wind power: government-guided price

Biomass: government-made price and government-guided price

Solar energy, ocean energy and geothermal energy: government-made price

Hydro-power: existing tariff policy

IV. Tariff Policy on Renewable Energy

The standard of network connection charge for renewable energy generation projects:

Formulated according to the length of transmission lines

Within 50 kilometer	1 RMB cent /kWh
50 – 100 kilometer	2 RMB cent /kWh
Above 100 kilometer	3 RMB cent /kWh

IV. Tariff Policy on Renewable Energy

- the composition of additional subsidy items for renewable energy tariff

Subsidy for generation projects: equal to the balance between on-grid tariff for renewable energy generation projects and the benchmark tariffs for units with desulphurization facilities in the area covered by local provincial power grid, when the former is higher than the latter.

Subsidy for public independent power systems: equal to the difference between operation-maintenance fees of independent power systems and the average sales price for local provincial power grid, when the former is higher than the latter.

Charge of network connection: the investment in transmission and substation as well as the operation and maintenance fees incurred for network connection of renewable energy generation projects.

IV. Tariff Policy on Renewable Energy

- the sources and standards of tariff subsidy

Exempt for agricultural production

Levy RMB 0.1 cent (surcharge) for electricity consumption of residential and fertilizer production

Levy RMB 0.2 cent (surcharge) for other kinds of electricity consumption

Levy amount (total surcharge) in 2007 was RMB 1.876 billion.

the allocation and balancing measures:

The total amount of above listed surcharges shall be counted into the revenue of provincial grid company, and paid as tariff subsidy for renewable energy generation projects in the local province. If the total amount of surcharges is more than the required tariff subsidy for renewable energy generation projects in the province, the excessive part shall be put into the quota transactions for national balancing between provinces. Otherwise, the short part of the province shall be supplemented by the excessive part of other provinces through the quota transactions.

V. Policy of On-grid Tariff Reduction for Small-size Thermal Units

- The policy put forward in 2007

Main content:

First, define the application scope for on-grid tariff reduction of small-size thermal units

Second, formulate the specification for tariff reduction of small-size thermal units

Units operated in and after 2004

Units operated before 2004

Thirdly, encourage generation right transfer from small-sized thermal units to highly efficient units.

V. Policy of On-grid Tariff Reduction for Small-size Thermal Units

- In 2007, according to the state's policy requirement, on-grid tariffs of 294 small-size thermal units, totaling 9,550 MW, were decreased in steps to the benchmark on-grid tariff level.
- In 2007, the average on-grid tariff of small-size thermal units fell RMB 10.96 per megawatt; and the volume of generation, which transferred from small-sized thermal units to highly efficient units, was 22,489 million kWh.
- In 2007, 533 small-size thermal units were shut down, with a total installed capacity of 14.38 GW.

VI. Policy on Peak-Valley TOU Tariff & Rainy- and Dry-Season TOU tariff

- Due to statistics, the policy on peak-valley TOU tariff has been carried out nationwide except Guangxi province and Guizhou province.
- In 2007, at the sales side, the sales volume of electricity at peak-valley TOU tariff accounted for 50% of the total sales volume. Averagely speaking, the price at peak time is 2.92 times of that at low valley time.
- In Hunan, Sichuan, Chongqing, Liaoning, and Guangxi the five provinces, the rainy- and dry-season TOU tariff has been conducted. The average ratio between rainy season price and dry season price is 1.27.