

National Development and Reform Commission

of the People's Republic of China

Document No.: NDRC Price [2006] No. 7

Notice of National Development and Reform Commission on the Publication of "Provisional Administrative Measures on Pricing and Cost Sharing for Renewable Energy Power Generation"

Development and Reform Commission, Pricing Bureau, Power Companies at provincial, autonomous region, and municipality directly under the Central Government level, State Grid Corporation of China, and China Southern Power Grid:

In order to promote the development and utilization of renewable energy, in accordance with the Renewable Energy Law of the People's Republic of China, NDRC formulate the "Provisional Administrative Measures on Pricing and Cost Sharing for Renewable Energy Power Generation" for you to implement accordingly. Please report to NDRC any problem encountered in the course of execution.

Appendix: Provisional Administrative Measures on Pricing and Cost Sharing for Renewable Energy Power Generation

National Development and Reform Commission
of the People's Republic of China
(Official Seal)
January 4, 2006

Key Words: renewable energy, tariff, administration

C.C.: Committee of Legal Work, CPPCC, Committee of Population, Resources and Environment, CPPCC, Ministry of Finance, State Electricity Regulatory Commission

Appendix:

Provisional Administrative Measures on Pricing and Cost Sharing for Renewable Energy Power Generation

Chapter 1. General Principles

Article 1. In compliance with the Renewable Energy Law of the People's Republic of China and the Price Law of the People's Republic of China, the Measures is formulated to promote the development of renewable energy power generation industry.

Article 2. The scope of application of the Measures includes wind, biomass (including power generation from forest and agricultural waste through direct combustion and gasification, solid waste incineration, landfill gas, biogas), solar, geothermal and ocean power generation.

Prevailing regulations on hydropower tariff are still in effect.

Article 3. Renewable energy power generation projects within the boundaries of the People's Republic of China and those to be approved for construction by the relevant governmental authorities in 2006 and beyond shall be governed by the Measures while projects approved for construction by the relevant governmental authorities before December 31, 2005 shall be governed by the relevant existing regulations.

Article 4. Code for pricing and cost sharing for renewable energy power generation projects sticks to the principle of development promotion, efficiency enhancement, standardized administration and fair share.

Article 5. Tariffs for renewable energy power generation are categorized into Government Fixed Price and the Guidance Price of the Government. The Guidance Price of the Government refers to the awarded tariff of the bid winner through competitive tendering.

The incremental cost of renewable energy power generation over the yardstick feed-in tariff for desulphurizing coal-fired generating units shall be shared among the sales volume of electricity in power grids at the provincial or above level.

Chapter 2. Pricing of Electricity

Article 6. The Guidance Price of the Government applies to the feed-in tariff for wind power projects and the pricing standards will be determined through bidding by the price authorities of the State Council.

Article 7. For biomass power generation projects where the government fixed price applies, the price authorities of the State Council shall set yardstick tariff by region and the price standard shall be the addition of yardstick feed-in tariff for desulphurizing coal-fired generating units in 2005 in respective provinces (autonomous regions, municipalities directly under the Central Government) and subsidy price.

The subsidy price is 0.25CNY per kilowatt-hour. 15 years of subsidy price shall be enjoyed for power projects starting from the date of power production; the subsidy price shall be annulled after 15 years of operation.

Since 2010, the subsidy price for power generation projects newly approved for construction by the relevant government authorities each and every year shall be decreased by 2% over that approved for construction in the preceding year.

Mixed-fuel power generation projects with the conventional energy exceeding 20% in heat consumption for power production shall be regarded as conventional energy power generation projects and the yardstick tariff of local thermal power plants shall apply without enjoying the subsidy price.

Article 8. For biomass power generation projects with feed-in tariff set through investor bidding, the guidance price of the government shall apply, i.e. the price of the bid winner which shall not be higher than the local yardstick tariff.

Article 9. The Government Fixed Price applies to solar, ocean and geothermal power generation projects and the price standard shall be determined in the principle of reasonable costs plus reasonable profits by the price authorities of the State Council.

Article 10. Sales price to the end-user for public independent power systems from renewable energy is subject to categorized sales price of the local provincial power grid.

Article 11. Power end-users are encouraged to purchase electricity from renewable energy of free will and the tariff is the addition of the power generation price of renewable energy and the average transmission and distribution price of the grid.

Chapter 3. Cost sharing mechanism

Article 12. The incremental cost of: feed-in tariff for renewable energy power generation over the yardstick feed-in tariff for desulphurizing coal-fired generating units, O&M costs of state-invested or subsidized public independent power systems from renewable energy over the average electricity sales price of the local provincial grid as well as the grid connection cost of renewable energy power generation projects

will be settled via tariff surcharge levied on the electricity end-users.

Article 13. The renewable energy tariff surcharge shall be levied on the electricity end-users within the service scope of the provincial and above grid enterprises (including wholesale customers, of the provincial grid enterprises, auxiliary power plants, large accounts directly purchasing electricity from the power plants). End-users of county self-provided power grids, end-users in Tibet area and those engaged in agricultural production shall be exempted from such tariff surcharge.

Article 14. Renewable energy tariff surcharge shall be verified by the price authorities of the State Council and metered according to the actual power consumption of the end-users adopting the unified standards throughout China.

Article 15. Calculation formulas for the renewable energy tariff surcharge:

Renewable energy tariff surcharge = the total amount of renewable energy tariff surcharge / total sales volume of electricity at a price with the tariff surcharge throughout China.

the total amount of renewable energy tariff surcharge = Σ [(renewable energy power generation price - the yardstick tariff for desulphurizing coal-fired generating units of the local provincial power grid) * renewable energy power purchased by the power grid + (O&M costs of public independent power systems from renewable energy - the average electricity sales price of the local provincial grid) * sales volume of public independent power systems from renewable energy] + the grid connection cost of renewable energy power generation projects and other reasonable charges]

Therein:

- (1) total sales volume of electricity at a price with the tariff surcharge throughout China = total sales volume of electricity of the provincial or above grid enterprises during the planning period - power consumption for agricultural production - sales volume of electricity of the Tibetan grid.
- (2) renewable energy power purchased by the power grid = planned power generation from renewable energy – power consumption within the power plant
- (3) O&M costs of public independent power systems from renewable energy = operating cost for public independent power systems from renewable energy * (1+VAT rate).
- (4) the grid connection cost of renewable energy power generation projects and other reasonable charges refer to the engineering investment and O&M costs incurred specifically for the grid connection system of renewable energy power projects,

based on the design documents from the relevant government departments. Before the transmission and distribution cost is defined by the State, the grid connection cost shall be temporarily included in the renewable energy tariff surcharge.

Article 16. The total amount of renewable energy tariff surcharge to be apportioned among the provincial grid enterprises is defined according to the proportion of sales volume of electricity at a price with tariff surcharge of the provincial grid enterprises in the total sales volume of electricity at a price with the tariff surcharge throughout China.

Calculation formula as follows:

The total amount of tariff surcharge to be apportioned among the provincial grid enterprises = the national total of renewable energy tariff surcharge * sales volume of electricity at a price with the tariff surcharge within the service scope of provincial grid enterprise / national sales volume of electricity at a price with tariff surcharge.

Article 17. The renewable energy tariff surcharge shall be included in the sales price of grid enterprises, levied by the grid enterprises and kept in separate accounts to be used for specific purposes. Subject to the detailed regulations governed by the state council for preferential tax policies concerned.

Article 18. The renewable energy tariff surcharge shall be adjusted on a timely basis by the price authorities of the State Council according to the actual situation in the development of renewable energy and the adjustment cycle shall not be less than one year.

Article 19. The difference between the subsidy electricity fare actually paid by the provincial grid enterprises and the grid connection costs incurred for renewable energy power generation projects and the apportioned amount of tariff surcharge payable shall be subject to unified allocation in China. Concrete administrative measures will be formulated by the electricity regulatory departments according to the Measures and submitted to the price authorities of the State Council for approval.

Chapter 4. Miscellaneous

Article 20. Renewable energy power generation and grid enterprises shall record and maintain relevant data such as trade volume, price, and amount of power generated from renewable energy to the grid on a true and complete basis and shall accept the inspection and supervision of price authorities, electricity regulatory institutions and auditing departments.

Article 21. Any failure to implement the Measures resulting in loss of corporate and state benefits shall be scrutinized by the price authorities of the State Council, the electricity regulatory departments and auditing departments and the major responsible

person shall be tracked down for his responsibilities.

Article 22. The Measure shall take effect on January 1, 2006.

Article 23. The Measures shall be construed by the National Development and Reform Commission.