'Superministry' for Chinese energy

11 March 2008

A new energy bureau is to be created in China to mastermind energy policy and programs.

Hua Jianmin, secretary general of the State Council, announced the restructuring plan at the National People's Congress, the annual meeting for top legislators representing China's 1.4 billion people.

The state news agency, *Xinhua*, reported that the new body - to be known as the National Energy Commission - would draft an energy development strategy complete with its various programs and then monitor and implement its execution. Acting under the National Development and Reform Commission (NDRC), the overall planning body for China, it would promote favoured forms of energy and encourage conservation.

Nuclear energy is already a priority for Chinese planners, even though it only provides a few percent of electricity. Currently China has 11 operating nuclear power reactors, but by 2030 that number could be 130.

The country has extensive reserves of coal, but is seeking to diversify energy supply - particularly in the wake of the recent extremely cold weather, during which coal transport was disrupted, supplies ran out and power cuts crippled the centre of the country. Some areas were without power for up to two weeks during the freeze.

In an indication of how seriously Chinese planners are now taking energy matters, vice-chair of the NDRC Zhang Guobao told Bloomberg News that the new NEC would be headed by the premier or the vice premier of China.

Effectively, the NEC will take over from the former National Energy Leading Group (NELG), which sought to draw together the various elements of policies led by other ministries that related to energy. The NELG would be disbanded, while the new structure would raise the priority of energy strategy. It was acknowledged that the former arrangements could not keep up with the pace of change in the energy sphere.

Four other 'superministries' are to be created in the shake-up: the ministries of industry and information; human resources and social security; environmental protection; housing and urban-rural construction; and transport.

http://www.world-nuclear-news.org/NP-Superministry_for_Chinese_energy_110308.html

NDRC will continue to set energy prices

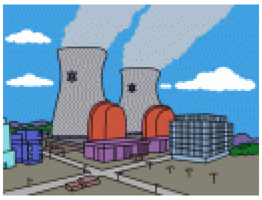
Energy 25 March 2008

Energy prices in China will continue to be set by the National Development and Reform Commission (NDRC) despite the creation of a new National Energy Bureau under it during the recent National People's Congress (NPC), the *South China Morning Post* reported. Zhang Guobao, the National Energy Bureau's new chief, said at an economic forum in Beijing that the new office "should not seek to participate in the pricing of energy," though it should make proposals on price adjustments. Zhang said it should also consult with the NDRC's price bureau if it wished to adjust energy prices. He added that details on how power will be shared by the agencies is still under discussion. A much-talked about energy "super-ministry" that would oversee all aspects of energy pricing and policy failed to materialize during the NPC.

http://www.chinaeconomicreview.com/dailybriefing/2008_03_25/NDRC_will_continue_to_set_energy_prices.html

National Energy Commission & National Energy Bureau (can we make this any more confusing?)

April 2nd, 2008 · No Comments



There hasn't been much reporting on the newly created energy offices probably because there isn't much to report, and the news that is available is extremely confusing. What is clear it that this was a compromise between those who wanted a full scale Ministry of Energy and those who wanted to maintain the diffused energy authority of the status quo. Beyond that point, the clarity ceases.

Here's what I think is happening, but don't make any bets based on this analysis: there will two new entities created: a *National Energy Commission* (NEC) and a *National Energy Bureau* (NEB). *Caijing Magazine* reports that

The new commission would integrate all energy-related institutions and functions controlled by the NDRC, the entire National Energy Leading Group (NELG), and the nuclear power management office of the Commission of Science, Technology and Industry for National Defense. The government would disband NELG - which was set up in 2005 to integrate energy sector planning - and its executive organs.

By forming a national energy commission, a single government department would assume responsibility for uniform enactment of energy policies and programs.

According to an explanation given by the State Council's secretary-general at an NPC hearing, the new national energy commission would be responsible for studying and drafting an energy development strategy. It would also consider energy security and development issues, while a national energy bureau under NDRC would be established as a standing body to handle the commission's day-to-day work.

Thus, the NEC will be the national energy issue think tank and will coordinate national energy-related policy. It appears to me that the NEC is simply a slightly more concrete entity than the old National Energy Leading Group (NELG), but will essentially do what the NELG did. To my knowledge the NEC has not yet been staffed. There has been talk that the NEC would be headed by the Premier or Vice-Premier of China, which makes sense since Wen Jiaboa was head of the NELG. If this leadership speculation is true, it also seems extremely unlikely, as some reports have indicated (including the *Caijing* article quoted above), that the NEC itself would be subordinate to the NDRC. It would be very unusual to have a Commission headed by a Premier or Vice-Premier be subordinate to a Ministry (no matter how powerful). If it turns out the NEC is subordinate to the the NDRC, then those backing a full-blown Ministry of Energy suffered a severe set back in this round.

The second new energy entity is the NEB which is charged with carrying out day-to-day energy policy implementation. The precise relationship between the NEC and the NEB is unclear, but my guess is that it is similar to the relationship between the old NELG and the National Energy Leading Group Office which was "housed in the National Development and Reform Commission to take charge of the routine work of the [National] Energy Leading Group." See here. Thus, in my opinion, the reports of one of the new energy offices being part of the NDRC refer to the NEB, not the NEC.

The powers of the NEB appear rather limited. It did not obtain any jurisdiction "over the three state oil and gas monopolies and other government-controlled energy and electricity conglomerates" according to this *China Brief* report, and an article in the *China Economic Review* notes that:

Energy prices in China will continue to be set by the National Development and Reform Commission (NDRC) despite the creation of a new National Energy Bureau under it during the recent National People's Congress (NPC), the *South China Morning Post* reported. Zhang Guobao, the National Energy Bureau's new chief, said at an economic forum in Beijing that the new office "should not seek to participate in the pricing of energy," though it should make proposals on price adjustments. Zhang said it should also consult with the NDRC's price bureau if it wished to adjust energy prices. He added that details on how power will be shared by the agencies is still under discussion.

As noted above, Zhang Guobao (张国宝), an NDRC vice minister, was appointed on March 19 to head the NEB. Zhang's portfolio at the NDRC included general energy issues in the past, and his most recent portfolio covered nuclear power sector in particular. He appears to have kept a relatively low profile, although there is the following cryptic reference, attributed to an "industry insider" in a December 2006 Brookings Foreign Policy Studies Energy Security Series report (p. 22) on China

More recently, in December 2005 CNOOC Ltd. broke off talks with Chevron over the purchase of LNG from Chevron's Gorgon project in Australia because it did not want to pay the prevailing world price (a decision which reportedly angered NDRC vice minister Zhang Guobao, who had a personal interest in seeing the deal consummated).

Two deputy heads have been appointed so far. Sun Qin, a former vice minister, will oversee the nuclear power industry, and Zhao Xiaoping, the former director of the energy bureau under the NDRC, will also serve as a deputy head although I have not heard what his responsibilities will include.

Zhang has signaled that his energy priorities will include:

1. Rapid development of nuclear power with a goal of 5% of China's power generated by nukes in 2020.
2. Encouragement of wind power so that China becomes the largest wind power generator within the next 5 years.
3. Active development of hydropower.

He has also signaled that China is "keen" to join the Organization for Economic Cooperation and Development (OECD), which is probably prompted, at least in part, by a desire to join the OECD's affiliate, the International Energy Agency.

The *Caijing Magazine* article has Zhou Dali, chairman of the the Energy Research Institute, "a think tank affiliated with NDRC," reflecting that

energy sector management and supervision is complex, and that more patience will be needed before an institutional overhaul can be completed. "On one side, we must strengthen our macroeconomic control," Zhou said. "On the other, we must divide roles with NDRC."

This is going to be a long process folks. Although we don't know how all this will all shake out in the next month or two (such as who will head the NEC?), it looks like the Ministry of Energy proponents lost this round. When the dust clears, I think it will become clear that the old NELG/NELG Office structure has simply been rebranded in a very small first step toward a Ministry-level Energy entity.

State Energy Leading Group Office formally set up

According to a report of the China News Service, the State Energy Leading Group Office was formally set up on June 2, head of the office is assumed concurrently by Ma Kai, minister of the National Development and Reform Commission (NDRC).

The State Energy Leading Group Office is housed in the National Development and Reform Commission to take charge of the routine work of the State Energy Leading Group.

The office's work includes: Supervising implementation of the decision of the leading group; getting to know the energy security condition, forecasting and giving early warning about the overall energy situation and major issues, offering counter-measures and proposals to the leading group; organizing relevant departments to study energy-related strategies and plans; studying major policies concerning the development and saving of energy, energy security and emergency measures and energy-related cooperation with foreign countries; and undertaking other matters entrusted by the State Council and the leading group.

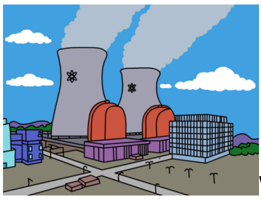
As a high-level council and coordination institution in charge of China's current energy work, the post of the State Energy Leading Group leader is assumed by Wen Jiabao, and its deputy leaders by senior officials, Vice-Premiers Huang Ju and Zeng Peiyan, members of the leading group include NDRC Miniser Ma Kai, Foreign Minister Li Zhaoxing, Finance Minister Jin Renqing and Commerce Minister Bo Xilai.

By People's Daily Online

http://english.peopledaily.com.cn/200506/03/print20050603_188369.html

China's National Energy Bureau (Update)

June 30th, 2008 · No Comments

We have previously discussed the moves earlier this year to tinker with China's energy administrative apparatus. Despite earlier predictions that China would be creating a Ministry-level energy entity it hasn't, and Ministry of Energy proponents found little encouragement in the draft of the new national Energy Law, released at the end of last year, which only refers generically to an "energy supervisory authority." Instead, China has created a new National Energy Bureau and a National Energy Committee (read the previous post linked above for details).

China Daily reports (quoting *Caijing* magazine) that at a June 25 executive meeting of the State Council the National Energy Bureau (NEB)

has been given the go ahead to increase its work force to about 100 across its nine departments.

While the National People's Congress (NPC) expanded the scope of the bureau in March, it remains part of National Development and Reform Commission (NDRC), and energy pricing and conservation management are still under the jurisdiction of other departments.

The move quadruples the size of the NEB's work force. Several measures designed to at least allow the NEB to symbolically assert some independence from the NDRC have also been publicized lately including moving several NEB offices out of the NDRC headquarters and giving the NEB its own party committee.

The truly independent energy entity established by the NPC, the National Energy Committee, which is to serve as a strategic consultative body, is not yet up and running to the best of my knowledge.

China's National Energy Bureau (Update 2)

July 8th, 2008 · No Comments

We commented last week on staff increases for the National Energy Bureau (NEB) and some symbolic moves it was taking to indicates some independence from its parent agency, the National Development and Reform Commission (NDRC). A little more detail is emerging about the structure and goals of China's energy regulatory apparatus and the draft Energy Law.

The NEB, as noted by an article in yesterday's *China Daily*, currently "consists of nine departments in charge of energy policy, project planning and approval, electricity, coal, oil, nuclear power and alternative resources and international cooperation." It does not, however, control such important issues as "energy conservation, oil reserves and energy price management."

As to NEB priorities, *China Daily* reports that

In addition to increasing oil and coal supplies, the national bureau has decided to tap the potentials of nuclear power and renewable energy. Zhang said recently that the country will accelerate the construction of nuclear power plants, particularly in the coastal regions, to ease mounting pressures on coal transportation from the northern regions and electricity transmission from west China.

The move, which could see nuclear power making up a minimum of 5 percent of the country's total energy mix in 2020, from the current level of less than 2 percent. That is higher than a previous target by 2020 of 4 percent set in 2005.

The bureau has also announced that the Inner Mongolia Autonomous Region, Gansu and Jiangsu provinces will be the site of the country's first wind power clusters, designed with an electrical capacity of 10 million kW each. This is compared with about 18 million kW from the Three Gorges electrical power generators in the Yangtze River.

Again, there was little news as to the structure of the National Energy Commission (NEC) "which is designed as a strategic consultation body independent from the NDRC." The article states that "[t]he executive office of the national committee is expected to be part of the national energy bureau," but I suspect they simply mean that the NEC will share office space or executive staff with the NEB. If the NEC were administratively part of the NEB, it would lose its intended independence.

If you were expecting China's new Energy Law be passed this year, think again

A draft is finished, but the central government has still not decided when to read it, despite the fact that it took two years to complete.

“We haven’t discussed it so far,” Dong Chaojie, a deputy department director of the State Council’s Legislative Affairs Office said earlier in an interview. In line with China’s law-making process, Dong’s office is entitled to decide when to submit the drafts to the National People’s Congress to for consideration and voting.

She said it would be “complicated” for the drafters and legislators to weigh the diverse interests of stakeholders and parties governed by the energy law. The biggest challenge is the consolidation of separate responsibilities in various governmental departments.

Ye Rongsi, deputy head of drafting group under National Energy Leading Group, also said “it will take further time” to absorb public input to improve the draft.

“I think 2009 would be the earliest possible date for the legislative body to read and vote on the draft,” Ye says.

The draft is written in such vague and aspirational language that it is hard to imagine significant opposition to it. While it contemplates some centralization of the management of the country’s energy affairs, it does not mandate the creation of an Energy Ministry.

Perhaps among its most controversial provisions in the draft is found in Article 6 which provides that

The nation shall actively foster and standardize the energy market, make full use of the market’s basic role in resources allocation, and encourage all entities of various ownerships to legally engage in the activities of developing and utilizing the energy.

You may recall that recent reports suggested a similar provision in the draft Circular Economy Law was stricken during deliberations of the Standing Committee of the NPC.

My guess is that there is significant behind the scenes jockeying at the State Council among the various affected ministries to get a commitment before the passage of the law as to how the national energy regulatory function will be structured post-enactment. No ministry is willing to give its final sign off on the law until it knows what it will win and what it will lose by its passage.

Energy management reshuffle starts

By Fu Jing (China Daily)

Updated: 2008-07-07 15:58

As global energy prices continue to fly higher, China has moved a step further to unify its divided energy management regime by expanding the National Energy Bureau.

Under China's highest economic planner, the National Development and Reform Commission (NDRC), the newly elevated energy bureau will be quadrupled in manpower in an attempt to ensure the nation's energy supply.

Industry insiders say the reshuffle is just the first step toward setting up a unified national energy management regime. It will mainly focus on energy supply and production. In this high energy price era, matters such as energy conservation, oil reserves and energy price management are still not under the national energy bureau's governance.

The central government recently finalized the governance of the bureau after China's legislative body National People's Congress (NPC) gave an approval in March to gradually unify the scattered energy management functions in various cabinet departments.

The State Council, China's cabinet, has already approved increasing the bureau's manpower to about 120. It consists of nine departments in charge of energy policy, project planning and approval, electricity, coal, oil, nuclear power and alternative resources and international cooperation.

The legislative body has also agreed to set up a National Energy Committee, which is designed as a strategic consultation body independent from the NDRC. The executive office of the national committee is expected to be part of the national energy bureau.

Industry insiders say China has already made headway in setting up a unified energy management system amid challenges toward global energy security.

"This is a good start to ensure China will function well regarding energy security," says Zhang Libin, Beijing chief representative of the US law firm Baker Botts L.L.P, which specializes in energy business.

"It's a preparation for China to finally set up a cabinet department with overarching energy sectors," Zhang tells China Business Weekly. "It's of great importance to China's sustained development."

China's Coal Concerns, Part III

July 25th, 2008 · No Comments

I'm sorry if I'm beginning to sound like a broken record and a scold on the issue of China's power supply, but the situation is becoming increasingly dire. The problem highlights the fact that China needs a comprehensive energy policy which is systematically imposed and which includes a large chunk of mandated renewable energy. Simply put: if you are going to plan energy supply and demand (rather than let the market direct the action), then you'd better have a plan. China's recent actions give the impression it is winging it on energy policy. The jockeying for superiority in the energy arena among China's various ministries needs to come to an end, and someone needs to take charge.

The bad news is pretty bad (as reported by *Caijing,* "Lights May Flicker as Coal Crunch Mounts")

China's power shortage this summer will reach 16 million kilowatt hours - a crunch far more severe than the previously expected 10 million kilowatt hours, said an official from the State Electricity Regulatory Commission.

Such grim statistics are included in a recent commission survey, which found that regions covered by the State Grid Co. distribution network will see shortages of around 10 million kilowatt hours, while regions supplied by Southern Power Grid Co. will fall short by 6 million kilowatt hours. The biggest power consumer, Guangdong Province, is expected to suffer a shortfall of up to 5 million kilowatt hours.

The power shortfall is caused by "the low supplies of and high prices for coal."

Wang [Shuang, an electricity analyst for United Securities] said many power generation companies have been forced to halt operations due to mounting losses caused by the gap between high coal costs and low prices for electricity.

A China Power Investment Co. source said an increasing number of turbines have been shut down due to a lack of coal. Even in coal-rich Shanxi Province, many power plants have stopped operating since June.

As we've discussed here before, the government's "fix" for this situation seemed spectacularly ill-conceived: on June 19 "the National Development and Reform Commission announced the government would impose temporary price restraints on coal sold to power plants." As an “electricity expert [I think this is a thinly veiled reference to CELB]” told *Caijing* “the intervention measure will discourage coal supplies, which will make the power shortage even worse.”

The price caps have been ineffectual in keeping coal prices down. According to *Xinhua*

The fuel prices, however, continued rising, surging 22 percent to more than 1,000 yuan (146.6 U.S. dollars) per tonne in Qinhuangdao since June 19.

Nevertheless, the withholding of supplies from the market continues. As a result there is even less coal available now (and at significantly higher prices) than there was on June 19.

Confronted with what would seem to be a failure of its initial policy, what does the NDRC do? Treat yourself to a lump of coal if you answered “it issues a this-time-we-really-mean-it statement.”

China urged local regulators to tighten controls on coal price increases to help power producers cope with rising fuel costs, the National Development and Reform Committee (NDRC) said in a statement on Thursday.

Coal producers that continued raising prices and traders who hoarded supply to jack up prices would be punished according to the country’s Price Law. Such violators would also face media exposure, it said.

Oh no, not punishment under the country’s Price Law! I don’t think I am going too far out on a limb if I predict that this renewed effort by the NDRC will have absolutely no effect on reigning in rising coal prices or increasing supplies.

Further power price increases are inevitable, but they probably won’t come fast enough to change the summer peak power supply shortfalls. According to the *Caijing* article a “source at China’s leading power supplier Huaneng Group” reported that “we are expecting further power price adjustments after the Olympic Games.”

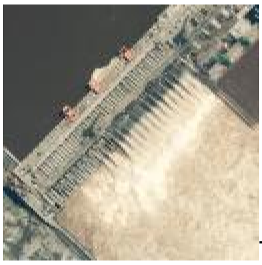
If this situation has a silver lining, it is that renewable power has started to look more financially attractive to China’s power producers. China Daily reports that

Because of the soaring coal prices, China’s leading power producers have all begun to eye clean energy. China Huaneng Group is now developing wind power plants in provinces such as Hainan, Guangdong, Jilin and Shandong, and the Inner Mongolia Autonomous Region.

After yesterday’s foul humor, I’m glad to end this post on the sunny side.

China, renewable energy gold medalist? Not so fast.

August 5th, 2008 · No Comments

There have been a number of giddy reports lately about how China is a world-beater when it comes to renewable energy. In the midst of such "irrational exuberance," it is good to know that some people can keep their heads. A story published yesterday in Scientific American, "China's Big Push for Renewable Energy," provides a balanced picture of the China renewable energy situation.

Here are some of the key points:

- A mighty wind, but an even mightier growth in energy demand. By the end of 2007, 6 gigawatts of turbines built equal to less than 1 percent-0.6 percent-of the country's power. By 2020, even under the most optimistic projections, wind will supply less than 3 percent of total electricity production.
- No room at the wind inn. The upside for new entrants in the wind power market in China is small. The major state-owned power and oil companies have locked up all the good utility-scale wind farm locations in China. However, not all of these locations are buildable "Because land is very precious in China, some places will not be allowed to build wind farms," notes [He] Dexin [president of Chinese Wind Energy Association (CWEA) who has been involved in wind power since the 1970s].
- Off-shoring's an option but mind the typhoons. The China Meteorology Research Institute predicts that off-shore wind farms could provide up to 750 gigawatts of electricity, but "typhoons wreaked havoc on poorly designed wind farms in the south of the country in recent years." "The reality in China is they develop [wind farms] too fast," says CWEA's Cai Fengbo. "The quality of wind generation suffered."
- Solar panels everywhere, but almost none on the grid. China is also the number one producer of solar photovoltaics, however. "99 percent goes outside," says Chinese Renewable Energy Industries Association secretary general Li Junfeng. "The local market is very limited because [PV] is too expensive."
- Green is as green does. There's nothing wrong with China making a buck on green technology even if it doesn't use much of it at home, except when those industries or their suppliers fail to follow the applicable environmental rules then Chinese citizens end up "bearing the burden of the pollution that can go along with the manufacture of such renewable energy for other countries-whether the acid rain-forming sulfur dioxide emitted from making the steel in a wind turbine's blade or the noxious chemicals left over after manufacturing specialized silicon, or glass, that can turn sunshine into electricity." "To stop global warming, it's not an excuse to destroy the local environment," says Greenpeace's Liu. "Producing photovoltaics must have strong

controls on chemicals." There are strong controls on such chemicals, the problem is those controls are often ignored.

- Ok so what's left, dam it! "So that leaves dams as the cleanest, cheapest option for electricity generation in China." China has a hydroelectric potential of 400 million kilowatts, of which only about 28% has been developed. "Within 30 to 50 years, hydro will be the main energy we should rely on," predicts Lai Hun Suen, a professor of sustainable development at Chongqing University and a municipal government official.

There are still a number of hurdles that need to be cleared before renewable energy has a shot at putting a dent in China's growing carbon emissions. I don't doubt China's commitment to renewable energy. The amount of energy produced from renewable resources continues to grow. It deserves credit for these efforts. It is still a long way, however, from developing and implementing a coherent renewable energy strategy that does not rely primarily on building even more dams, with more community relocations and more environmental harm.