

# China Energy Policy Newsletter: December 2018

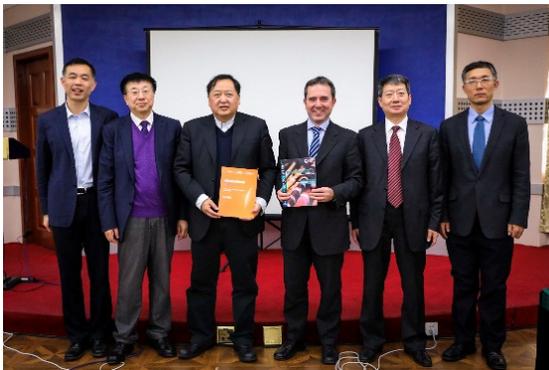
## 1. Recent project activities

### CNREC officially published China Renewable Energy Outlook 2018 in Beijing

On 25 November 2018, the China National Renewable Energy Centre (CNREC) and the International Energy Agency (IEA) jointly hosted an event for publishing CNREC's *China Renewable Energy Outlook (CREO) 2018* and the IEA's *Renewables 2018* in Beijing. Wang Zhongying, Director of CNREC, presented the main results of CREO 2018: "Many developed countries including Denmark have decoupled economic growth from growth in energy consumption. An idealized three-way relationship between energy, economy, and environment should include green energy and high quality economic growth enabling the realization of ecological civilization," he said.

CREO 2018 analyzes two energy scenarios for China through 2050: a Stated Policies scenario based on existing policies and how they might be continued through 2050, and a Below 2 °C scenario, which examines how China might meet its energy and economic targets while remaining under a carbon constraint with a Below 2 °C future. China's current policies and strategies include scaling up renewable deployment, establishing carbon trading, and introducing competitive electricity markets. One of the priority tasks for renewable integration is adjusting electric power dispatch, particularly to enable inter-provincial and inter-regional power dispatch. CREO 2018 shows that with improved dispatch and enhanced deployment of wind and solar, these power sources can become the core of both the electricity and energy systems by 2040, enabling a Below 2 °C energy future. The analysis also shows that such a system results in lower costs for end-users, higher employment, as well as lower emissions of conventional pollutants, than the Stated Policies scenario.

According to the IEA's forecasts in *Renewables 2018*, wind and solar PV will become the cheapest energy sources in the future. Implementation of market reform is necessary for wind and solar PV to substitute for fossil fuels on a large scale, but these reforms ultimately result in cost savings for consumers and taxpayers. The report also highlights the role of modern bio-energy, which the IEA projects will account for 30% of newly added global renewable energy by 2023.



From left to right: Zheng Jian, Deputy Director of Basic Industries Department, NDRC; Han Wenke, former Director of Energy Research Institute (ERI), NDRC; Wang Zhongying, Deputy Director of ERI of NDRC, and Director of CNREC; Paolo Frankl, Head of the Renewable Energy Division, IEA; Liang Zhipeng, Deputy Director of New Energy and Renewable Energy Department, NEA; Ren Dongming, Director of Renewable Energy Development Center, ERI of NDRC.

Source: CNREC



### Three-year clean energy consumption action plan issued

NDRC and NEA jointly announced the Clean Energy Consumption Action Plan 2018-2020 on 31 November 2018.<sup>1</sup> The plan sets out a schedule for fundamentally resolving China's longstanding problems with wind and solar energy integration, including reducing curtailment to 5% or below by 2020.

#### Clean power consumption targets

	Wind usage rate	Wind curtailment	Solar usage rate	Solar curtailment	Hydro usage rate	Nuclear
2018	>88% (aim for >90%)	<12% (aim for <10%)				Guaranteed consumption of high proportion
2019	>90% (aim for >92%)	<10% (aim for 8%)	>95%	<5%	>95%	Guaranteed consumption of nearly full proportion
2020	Aim for about 95%	Aim for about 5%				Guaranteed consumption of full proportion

The plan contains elements related to controlling deployment of renewable and coal power, accelerating power market reform, improving policy guidance, and additional targets.

For renewable energy, the policy emphasizes that new deployment of wind and solar should focus on provinces with higher consumption, given longstanding reluctance of provinces to import renewable energy from other regions. Provinces with high curtailment should not exceed their targets for 13th Five-Year Plan. For coal, the plan pushes to accelerate the phase-out of outdated capacity as well as acceleration of energy savings retrofits.

The policy also makes mention of several aspects of power market reform. The document references the need to expand trading, as well as the need to establish day-ahead spot trading markets, as well as the need to encourage local and regional spot market trading in clean energy. The document mentions that administratively planned allocations for transmission utilization between provinces should be allowed to exceed the planned amount to facilitate clean energy transactions. Demand response should also be encouraged to participate in power markets. Wind and solar feed-in tariffs will be fully scaled back by 2020.

The document also contains other targets related to integrating renewable energy. The plan calls for clean energy to replace 10 TWh of captive coal plants (that is, industry-owned coal plants located within an industrial park) by 2018, and 50 TWh by 2020. The plan targets a 30% share of renewable in major inter-provincial and inter-regional power transmission lines by 2020. The plan also mentioned a goal of achieving a clean energy heat supply rate of 50% by 2019 and 70% by 2021 in the northern regions. Clean energy can include electricity, gas, replacing sanmei with higher-quality coal and renewable energy.

<sup>1</sup>“国家发改委、能源局关于印发《清洁能源消纳行动计划（2018-2020年）》的通知,发改能源规[2018]1575号,” National Development and Reform Commission and National Energy Administration, 31 November 2018, accessed at <http://183.222.242.204:10086/index.php?do=show&id=1632>.

## **NDRC and NEA jointly issue the third draft of renewable obligation policy**

After the two rounds of comments, the National Development and Reform Commission and National Energy Administration have issued a new draft of the renewable obligation, which sets renewable electricity consumption targets by province and provides measures to achieve them. The policy addresses three key issues: categories of compliance entities that will implement the obligation, determination of provincial obligation targets, and provincial level evaluation mechanisms. The third draft was released by NEA and NDRC on 13 November 2018.<sup>2</sup>

### **Key points in the third draft**

- The policy makes explicit the goal of encouraging renewable electricity consumption; certificates trading is not an objective of the policy.
- The policy adjusts the renewable electricity targets for each province, and sets an “incentive target” several percentage points above the target representing a stretch goal. Local energy-consuming enterprises can receive an exemption from the regulation if the province achieves the incentive target.
- The policy includes an indicator of the renewable share in ultra-high-voltage (UHV) power lines in provincial quota calculations, which could increase renewable imports by eastern provinces to help address wind and solar curtailment.
- The policy removes the previous monetary fines for entities that fail to comply with the obligation, instead using a credit blacklist mechanism. A bad credit record would affect covered entities and prevent them from engaging in power spot markets.

The final version should come out by the end of 2018, and come into effect in January 2019. Henceforth, NEA will issue provincial obligation targets annually.

### **Quota targets slightly drop in part of the provinces**

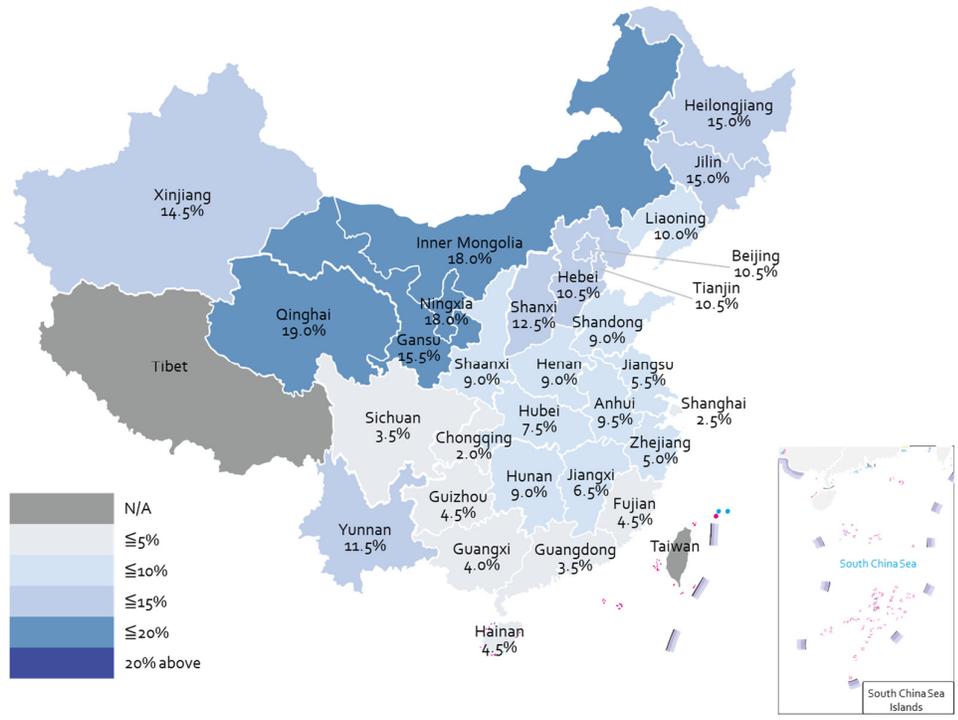
In terms of provincial target changes in the third draft, there are no increased targets, and several provinces received lower targets. For 2018, Xinjiang sees the biggest target reduction, from 16% originally to 14.5%. Targets for Anhui, Hainan, Yunnan, Gansu and Qinghai are all reduced by 0.5 percentage points. For 2020, the policy reduces Xinjiang’s target by 5.0 percentage points, from 21% to 16%, followed by Hunan (4.5 points), Anhui (1.5 points), Fujian (1 points) and Gansu (1 points). Shanxi, Jilin, Shandong, Henan, Guangdong and Yunnan also see 2020 targets reduced by 0.5 percentage points.

According to the current arrangement, provinces such as Jiangsu, Zhejiang, Anhui and Hunan are still under pressure to achieve quota targets. While hydropower abundant provinces including Yunnan, Guizhou and Sichuan are expected to benefit from selling surplus renewable electricity.

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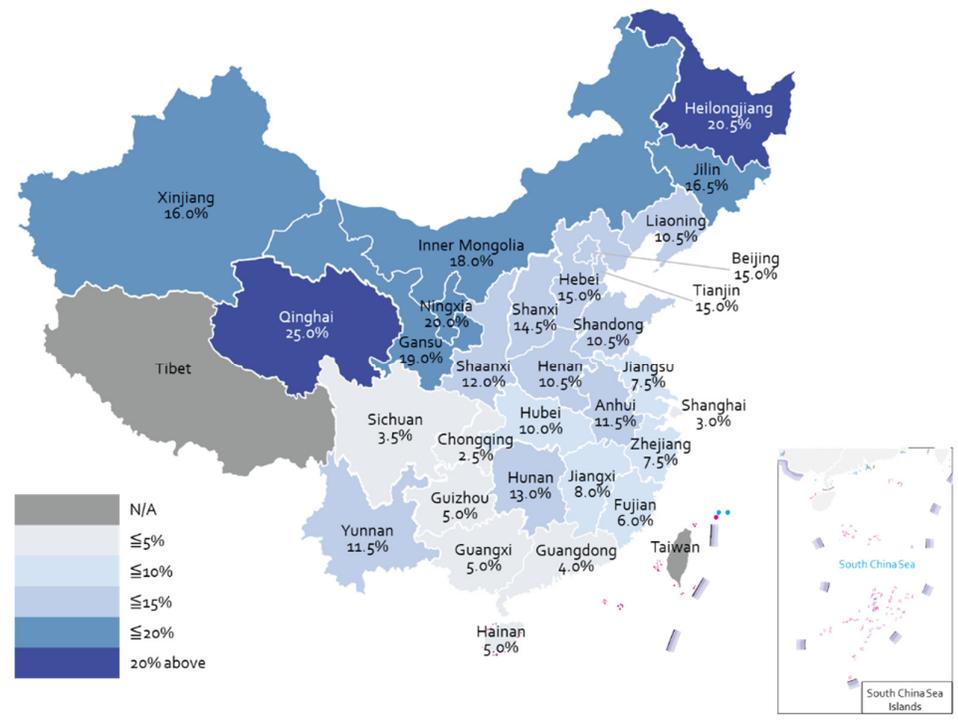
<sup>2</sup> “国家能源局综合司征求《关于实行可再生能源电力配额制的通知》意见的函，” National Development and Reform Commission and National Energy Administration, 13 November 2018, accessed at [http://www.nea.gov.cn/2018-11/15/c\\_137607356.htm](http://www.nea.gov.cn/2018-11/15/c_137607356.htm).

### Non-hydro renewable power mandatory targets in 2018 by province



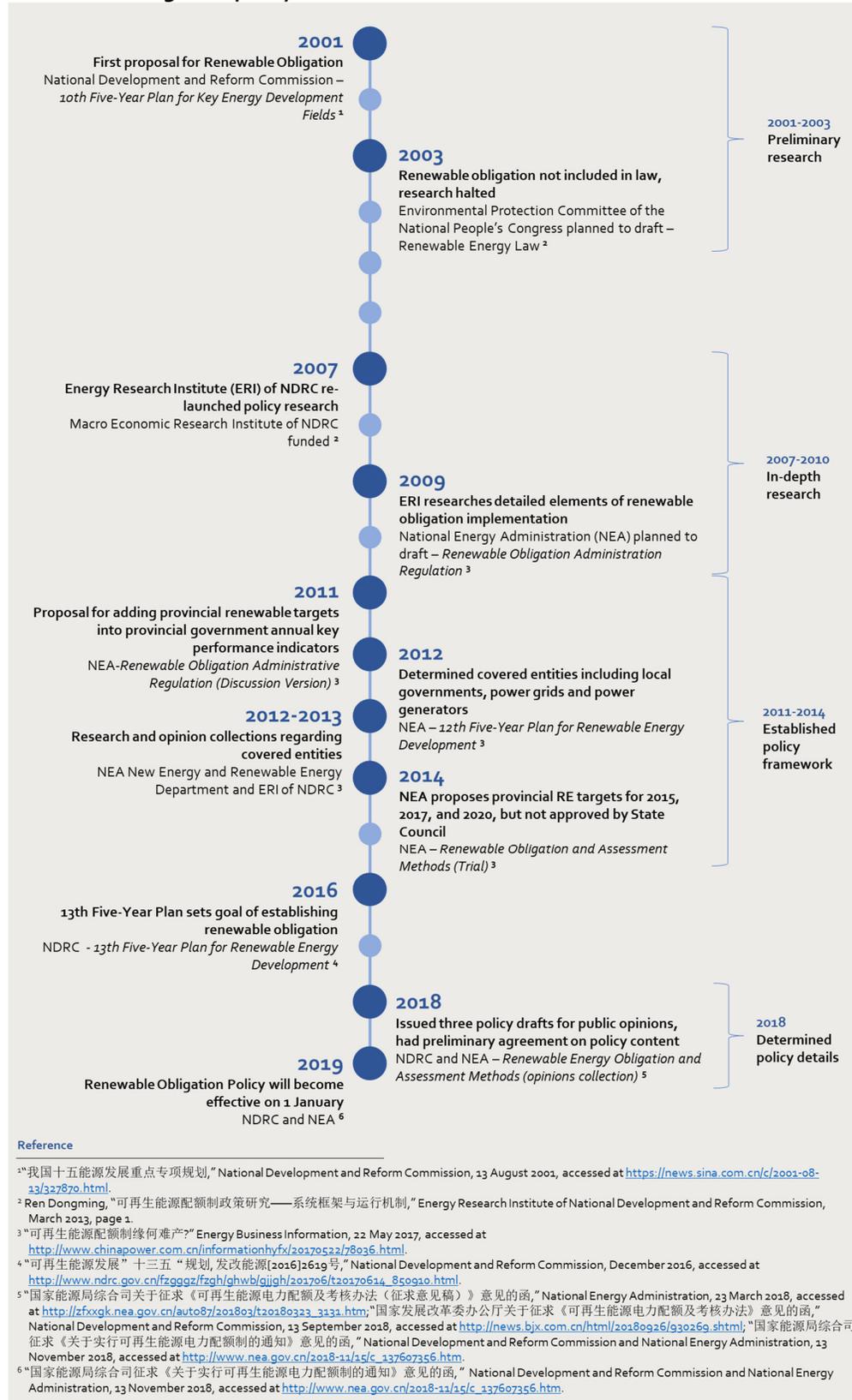
Source: NEA

### Non-hydro renewable power indicative targets in 2020 by province



Source: NEA

#### Renewable obligation policy timeline



### Commissioning date of spot market pilots revised to June 2019

*Notice on Improving the Work Mechanism of Constructing Pilot Projects for Electricity Spot Market, NEA Comprehensive, Legal, and Institutional Reform [2018] No. 164*

Due to delays in spot power market pilots, the government has required the eight spot market pilots to accelerate the research and preparation for initiating spot markets and drafting market operation regulations. Pilots should start commissioning by the end of June 2019 provided no special obstacles arise, and provinces should report progress monthly to responsible government departments. Previously, the spot markets were targeted to start by 31 December 2018.

2018-11-08

<http://shoudian.bjx.com.cn/html/20181116/942264.shtml>

### First Water Ten-point Plan evaluation results announced

*2017 Evaluation of Implementation of the Action Plan for Water Pollution Prevention and Control*

The evaluation of the Action Plan for Water Pollution Prevention and Control (the Water Ten-point Plan) includes two aspects: mandatory water environmental quality targets and progress of water pollution prevention and control major tasks. The evaluation criteria involves 6 indicators: the quality of surface water (weighted 50–60%), black and odorous water body (20%), drinking water source (10%), groundwater (10%) and immediate offshore area (0–10%). The evaluation of immediate offshore area is applicable only to 11 coastal provinces.

Nine provinces (municipalities, autonomous regions) scored as *excellent* ( $\geq 90$ ): Hainan, Tibet, Zhejiang, Qinghai, Chongqing, Gansu, Xinjiang, Shanghai, and Jiangxi. 11 provinces scored as *good* ( $\geq 80$ ): Anhui, Fujian, Guangxi, Hubei, Guizhou, Henan, Hunan, Yunnan, Sichuan, Hebei, and Jiangsu. 11 provinces scored as *pass* ( $\geq 60$ ): Tianjin, Beijing, Shandong, Guangdong, Liaoning, Inner Mongolia, Ningxia, Heilongjiang, Jilin, Shanxi, and Shaanxi.

2018-11-06

[http://www.mee.gov.cn/xxgk2018/xxgk/xxgk15/201811/t20181106\\_672727.html](http://www.mee.gov.cn/xxgk2018/xxgk/xxgk15/201811/t20181106_672727.html)

### MoF clarifies taxable pollutants and exemptions under the Environmental Protection Tax Law

*Notice on Clarifying the Types of Taxable Pollutants in Environmental Protection Tax Law and Related Issues, MoF Tax [2018] No. 117*

For criteria pollutants, particulates emissions from exhaust from fuel combustion are taxed as "smoke dust," while re-suspended dust, industrial dust and other particulates in emissions (except those categorized as smoke dust, asbestos dust, glass wool dust, or carbon black dust) are classified as general dust for environmental tax purposes. For the application of tax exemption, centralized household waste treatment plants (household waste incineration power plant, household waste landfills and household waste composting plants which are established according to the law) are exempt from paying environmental protection taxes only if their discharges of taxable pollutants from each exhaust outlet is within national or local emission standards.

2018-10-25

<http://www.chinatax.gov.cn/n810341/n810755/c3850019/content.html>