

# China Energy Policy Newsletter: **October 2018**

## 1. Recent project activities

### **CNREC, GIZ, and NEA hold renewable energy auction expert workshop in Beijing**

On 28 September 2018, GIZ and National Energy Administration (NEA) hosted an Expert Roundtable on Renewable Energy Auctions and Experiences in Germany, convened in the offices of the China National Renewable Energy Centre. Mr. Malte Luks from German Federal Network Agency and Mr. Anders Hove from GIZ successively introduced German and international renewable energy auction experiences, and participants discussed auction design and development in Germany and China.

Mr. Luks, pictured at right, presented on Germany's renewable energy deployment status, current incentive mechanisms, and experiences with solar and onshore wind auctions. He recommended that a functional auction design should be transparent, simple, and clear, while ensuring high competition, high realization rates, and participation of a large number of stakeholders. Since the first auction in 2015, Germany has achieved impressive results, and the auction designs appear successful. Auctions have achieved up to 99.9% realization rate. The average price of winning bids in solar auctions has fallen by 50% in the past three and half years.



One of the key success factors Mr. Luks emphasized is simplicity: auction mechanisms should be simple enough to ensure sufficient competition. For example, the current solar auction mechanism in Germany adopts pay-as-bid with ranking by price (lowest first) and in case of price equality, ranking by project size (smallest first); these are the only criteria. Wind and solar projects have two years to realize projects. Solar projects have only to complete a four-page application form and specify their location, no building permits are required.



Mr. Hove, the Project Director of the German Energy Transition Expertise for China project, gave a brief review of international auction experiences, illustrating examples from Brazil, India, Japan and Nevada in the U.S. Pitfalls discussed included regulatory uncertainty, overly-strict price caps leading to cancelled auction results, difficulties accounting for project delays beyond the control of developers such as slow grid connections, and complex bidding document requirements.

The workshop will be the first of several exchanges on the topic of renewable energy incentives and auction design over the course of 2018 and 2019, as China strives to transition to subsidy-free policies for wind and solar in the next few years while ensuring the country stays on track to achieve increasing proportions of energy from clean sources.

## 2. China energy transition updates



### NEA issues second draft of renewable obligation for consultation

The second version consultation draft of renewable electricity quota was released by the NEA on 13 September 2018.<sup>1</sup> The draft shows several changes from the policy draft released on 23 March 2018, particularly regarding clarification of responsibilities for meeting and monitoring obligations, more concrete implementation methods, and updated provincial goals. The document details six categories of entities that must meet the renewable obligation, and specifies the quota calculations for each. Agricultural power use and electricity consumed by power grid companies for heating will be exempt from this regulation. The new draft also indicates that the State Grid and Southern Power Grid will provide technical support and policy suggestions on provincial targets each year.

### Covered entities and quota calculation in the second draft

Covered entities	Quota calculation
1 Provincial power grid companies owned by the State Grid or Southern Power Grid	Electricity sales multiplied by provincial quota targets
2 Local power grid companies owned by provincial and local governments	
3 Electricity retail companies with distribution grid operation permits	
4 Independent electricity retail companies	
5 Electricity consumers participating direct trading	Purchased electricity plus self-generated and consumed electricity, multiplied by provincial quota targets
6 Companies with captive power plants (excl. companies that all self-consumed electricity is supplied by self-generated electricity)	Net purchased electricity through public power grids plus self-generated and consumed electricity, multiplied by provincial quota targets

According to the new draft, covered entities will need to provide green certificates—a new type of certificate entirely distinct from the voluntary green certificate market that already exists—which allows power generation companies to sell the certificates to covered entities and thereby obtain renewable power subsidies from national renewable development funds, deducting the price received for selling the green certificate. The new draft states that trading will be supervised by the National Renewable Energy Information Center, which will issue, administer, and monitor green certificates. This reform is expected to improve the operation of the subsidy mechanism and speed payment processing.

For covered entities that fail to meet their annual quota of green energy, energy administrative departments under the State Council will assign provincial power grid companies to administer fines.<sup>2</sup> Revenue collected from fines will be used to pay renewable subsidies in the same local area.

Anders Hove from GIZ and Daniel Wetzel from Rocky Mountain Institute provided comments to the first draft to NEA, subsequently summarized in a short article in [China Dialogue](#). The changes in the second draft are aligned with some of these suggestions. In accordance with the short-term suggestions, Green Certificates (former RECs) would not make additional revenue for renewable generators if they are directly transferred when power is purchased, the second draft provides a solution by allowing to sell Green Certificates separately. Also the draft proposes a market-based method to set the price of Green Certificates, which reflects on the policy suggestion of preventing power grid companies' manipulation of the price. As for long-term suggestions such as secondary markets for green certificates and integration with other ongoing market reforms, the second draft also omits such measures.

<sup>1</sup> “《可再生能源电力配额及考核办法》（第二次征求意见稿）,” National Energy Administration, 13 September 2018, accessed at <http://news.bjx.com.cn/html/20180926/g30269.shtml>.

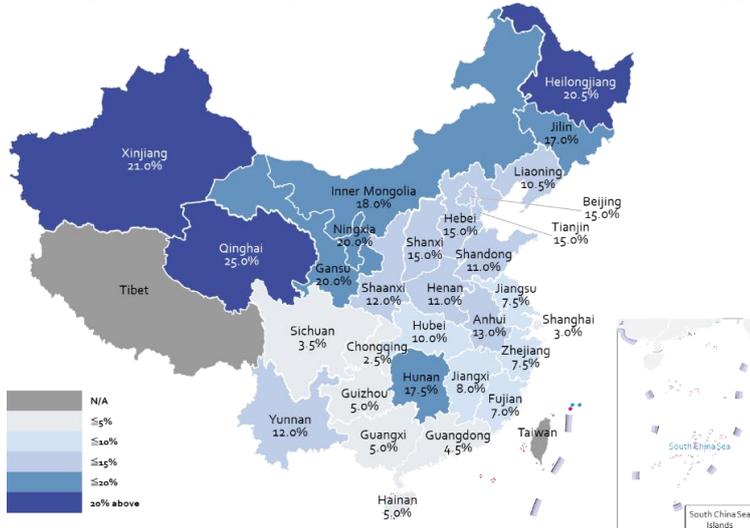
<sup>2</sup> The fine is currently defined by the sum of local benchmark coal power price, the maximum transmission and distribution price of large-scale industrial users (1-10 kV), governmental funds and surcharges, and policy based cross-subsidies.

## China proposes to set indicative renewable electricity target to 35% by 2030

The second draft also calls on national renewable power target in 2030: *Each province (autonomous region, municipality) should calculate its 2030 non-hydro renewable power indicative target in accordance with the national target of 20% non-fossil energy consumption target in 2030, striving for renewable energy proportion of electricity consumption to average no less than 35%.*

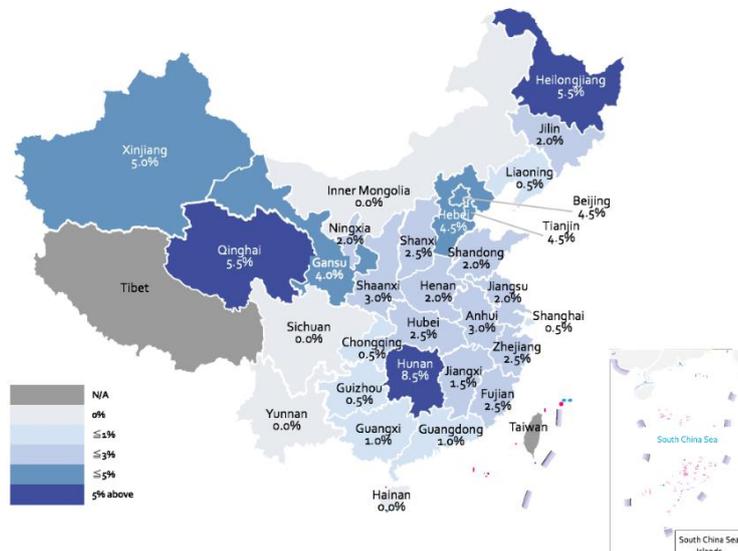
In our view, the goal set by this policy will not be easy to realize, considering current political, technological, and industrial obstacles. We also note that several international news organizations have reported the target as a definite increase, whereas the policy is still in the proposal phase.

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



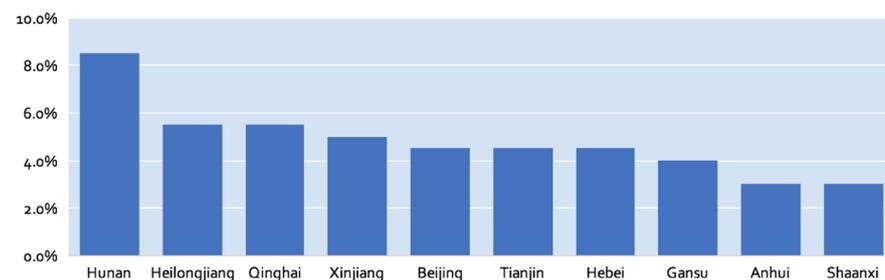
Source: NEA

## Required increase of non-hydro renewable power from 2018 to 2020 by provinces



Source: NEA

## Provinces with the largest required increase of non-hydro power from 2018 to 2020



Source: NEA



## To enhance support for wind and PV projects without subsidies

*Notice on Accelerating Grid Parity of Wind and PV Power Projects (Draft for Comments)*

The government will not limit the total amount of new grid parity wind and PV power projects nationally, but projects will not be approved in provinces market as red in the wind power or solar PV alert mechanism established by NEA. Grid parity projects are permitted to obtain provincial and local government subsidies. Provincial grid companies will sign long-term power purchase agreement with grid parity projects, whose power will be consumed within the province, ensuring annual power curtailment under 5%. The draft also encourages inter-regional transmission-prioritized grid parity projects.

2018-09-13

<http://www.china-nengyuan.com/news/128945.html>

## Nine UHV power transmission and substation projects announced

*Notice on Accelerating the Construction of Major Electric Power Transmission and Substation Projects, NEA Power [2018] No. 70*

NEA requires to accelerate nine DC and AC Ultra-High-Voltage power transmission projects with 12 lines and 57 GW of total transmission capacity, expecting to transmit conventional and clean energy from Northwest and Southwest to East power load areas, as well as to enhance inter-regional and inter-provincial power transmission. Transmission capacity of most projects range from 6 to 8 GW. Four projects are expected to be approved and commence construction in the fourth quarter of 2018, the other five projects in 2019.

2018-09-03

[https://www.sohu.com/a/252590429\\_703050](https://www.sohu.com/a/252590429_703050)

## New law released on soil pollution prevention and control

*Soil Pollution Prevention and Control Law of the People's Republic of China, adopted by the fifth session of the Standing Committee of the 13th National People's Congress*

The State Council will lead a national census on soil pollution, conducted at least once every 10 years. The Ministry of Ecological Environment will be responsible for formulating soil pollution monitoring criteria. The government instructs to carry out surveys on soil pollutions including fundamental information on land parcels, whether the pollutant load exceeds the standards, types and origins of pollutions, and groundwater pollution. Fines for violating the law range from RMB 200,000 to RMB 2 million.

2018-08-31

[http://www.npc.gov.cn/npc/xinwen/2018-08/31/content\\_2060158.htm](http://www.npc.gov.cn/npc/xinwen/2018-08/31/content_2060158.htm)

## NDRC adds shareholding rules for power exchanges, limiting grid control

*Notice on Promoting the Standardization of Power Exchanges, NDRC Economic Reform [2018] No.1246*

To improve the shareholding reform of power exchanges in Beijing, Guangzhou, and other provinces, the notice requires shareholder diversification: The ratio of non-grid corporations should exceed a minimum of 20%, and 50% is recommended. The reform should be completed before the end of 2018. The notice establishes a market management commission of grid companies, generators, electricity retailers and consumers. The commission will regulate information disclosure to meet market needs.

2018-08-28

[http://www.ndrc.gov.cn/zcfb/zcfbtz/201809/t20180904\\_897743.html](http://www.ndrc.gov.cn/zcfb/zcfbtz/201809/t20180904_897743.html)

## Three-year plan ecological and environmental supervision and monitoring

*Notice on Three Year Plan of Supervision and Inspection on Ecological and Environmental Monitoring (2018-2020), MEE Office Supervision [2018] No. 793*

From 2018 to 2020, MEE will carry out a survey of 200 ecological and environmental monitoring agencies annually to conduct throughout inspections on professional qualification, monitoring equipment, and data results. The survey will also examine the quality of automatic monitoring data in heavy industrial pollutant discharge units, and inspect the quality of operation and maintenance based on a sample of 10% of national, provincial and city-level environmental automatic air and surface-water monitoring locations.

2018-08-03

[http://www.mee.gov.cn/gkml/sthjbgw/stbgt/201808/t20180815\\_451423.htm](http://www.mee.gov.cn/gkml/sthjbgw/stbgt/201808/t20180815_451423.htm)