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China Energy Monthly Report

June 2014

- Chinese President Xi urges China to increase its energy security
 - BP and CNOOC sign billion pound LNG deals
 - China commissions the world's third largest hydropower project
 - China sets new offshore wind tariffs
 - Russia to build gas pipeline to China in August
 - China adjusts taxation to promote PV power generation
 - Sinopec to invest 14 billion yuan on energy efficiency
 - CNOOC and private firm agree gas station deal
 - CNOOC Ltd and Eni sign South China Sea PSC
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NUMBERS

10GW: China has changed projected solar installation targets in 2014 from 14GW to 10GW. Wu Xinxiong, the head of the National Energy Administration (NEA), revealed at a seminar in June that the official expectation for the distribution generated (DG) market fell from 8GW to 4GW while the expectations for the utility scale solar market in China remain at the 6GW level. (Xinhua)

40%: The International Energy Agency (IEA) predicted in its Energy Outlook Investment Report 2014 that China will account for nearly 40% of the world's capital investment in coal over the next 20 years. The report was published amidst the Chinese government's resolution to reduce city air pollution and CO2 emissions, which are largely a result of coal use. According to the report, global investment in coal will total US\$534 billion in the 20-year period.

9.03%: Despite the efforts of the central government and local governments, China's energy consumption per unit of GDP during 2011 and 2013 only fell by 9.03% (and carbon dioxide emission by 10.68%) from the 2010 level. The Chinese government has pledged to cut its energy intensity by 16% by the end of 2015, but it is widely believed that the target will be missed if the country doesn't take extra measures in 2014 and 2015.

IN BRIEF

Key Policies

Chinese President Xi urges increased energy security

On 13 June, Chinese president Xi Jinping stressed that the country should increase energy security. He said that China should increase energy production and consumption, energy provision, energy techniques, energy institutional systems, and international cooperation.

Xi stated that great importance should be attached to:

- 1) Accelerating the '2030 energy production and consumption revolution strategy' and the '13th FYP energy plan';
- 2) Regularly checking and updating energy efficiency standards;
- 3) Continuing constructing ~10GW coal power plant for ex-situ use but limiting coal plants unqualified for energy saving and emissions reduction; developing long-distance high-volume electric transmission techniques;
- 4) Starting new coastal nuclear constructions under strict safety codes;
- 5) Enhancing cooperation with Central Asia, the Middle East, the Americas and Africa;
- 6) Enhancing oil/gas resource exploitation and grid/reserve construction; finalising energy emergent system and capacity building and energy statistics; and
- 7) Promoting energy institutional reform in the electrical market and oil/gas system and relevant legal issues.

Industries are keen to see how this will be translated into practical policies.

China sets new offshore wind tariffs

On 19 June, China's National Development and Reform Commission (NDRC) announced that China had set tariffs for offshore wind, of 0.85 yuan (US\$ 0.14) per kWh to non-auction offshore projects, and 0.75 yuan (US\$ 0.12) per kWh to projects in inter-tidal waters. The on-grid tariff would be paid to wind farm projects to be completed and put into operation before 2017.

Given the installation and operation cost of offshore wind are almost twice as much as those of onshore wind, insiders believe that the tariffs are not high enough to be attractive (those of onshore projects are up to 0.61 yuan per kWh), but agree that the new policy will at least secure offshore wind power's access to the power grids, operated by state owned companies.

The new policy is the latest measure to encourage new investment in the sector. China has set a targeted 5,000 MW of offshore wind capacity by 2015, but just 400 MW has been installed to date – less than 0.5% of China's total installed wind capacity. (Sina)

China adjusts taxation to promote PV power generation

On 11 June, China's taxation authorities announced that buyers of distributed photovoltaic (PV) power should invoice for purchases. The buyers, mainly companies of the State Grid, will be required to invoice power generators from 1 July on to make PV power transactions easier. Previously, most PV power producers experienced difficulties with invoicing.

According to the announcement, electric power companies will also be allowed to collect value-added taxes on behalf of the authorities from PV power producers with monthly revenue exceeding 20,000 yuan (USD \$3,252).

The new policy aims to reduce the tax burden on PV power producers and promote green energy. China added 800MW distributed solar PV capacity in 2013, bringing the total number to 3.1GW. (Chinadaily)

Fossil fuels

Sinopec to invest 14 billion yuan in energy efficiency

On 26 June, China's oil and gas giant, Sinopec unveiled a plan to double its energy efficiency from the current level by 2025---the first of such kind ever adopted by any Chinese company. To meet the goal, Sinopec will rely on more capital investment, better management and improved technologies, and will invest four billion yuan (US\$ 643 million) and 10 billion yuan in 2014 and 2015 respectively on its energy efficiency programs. The company said the majority of the investment would be spent on developing new technologies and environmentally friendly management methods.

Before achieving the 2025 goal, Sinopec plans to firstly increase its energy efficiency by 20% by the end of 2015 and again by 65% by the end of 2020. (Xinhua)

CNOOC and private firm agree gas station deal

China Daily reported on 24 June that China National Offshore Oil Corporation (CNOOC) had jointly developed gas station businesses with the privately owned CNPC&TAFO Petro Corp to. CNOOC, China's third-largest oil producer and the country's top offshore oil and gas operator, had recently gained nine franchise gas stations owned by CNPC&TAFO, a private oil retailing company in Jiangsu province, East China.

Sinopec Group dominates China's gas retailing market along with PetroChina Co, the country's biggest oil and gas producer. At the end of 2013, there were about 92,000 fuel stations in China, of which Sinopec owned and operated 30,536, accounting for about 33%, while PetroChina owned 20,000, about 22% of the total. The rest were held by independent players including as CNOOC, which only owns 445 gas stations in China. The company,

however, is quickly expanding its retail business in order to boost the number of its fuel stations to 800 by the end of 2015.

Russia to build gas pipeline to China in August

Russia's energy giant Gazprom announced on 18 June that it would start welding seams of its major pipeline for gas supplies to China in August. Gazprom and China National Petroleum Corporation (CNPC) signed a 30-year Purchase and Sales Contract on East Route Gas Project and a memorandum on 21 May. The contract will see an east bound gas pipeline starting providing China with 38 billion cubic metres (bcm) of natural gas annually from 2018.

Also on the same day, vice-president of Gazprom Alexander Medvedev said the company and (CNPC) have inked a \$25-billion advance payment agreement for gas supply. He said Gazprom would also carry out further negotiations with CNPC on the gas supply of west line and the supply of liquefied natural gas (LNG) in near term. Further details are not immediately available. (Xinhua)

CNOOC Ltd and Eni sign South China Sea PSC

On 20 June, ET Net News Agency reported that CNOOC had signed a production sharing contract (PSC) with Eni China B.V. (Eni) for Block 50/34 in South China Sea. This block is located in Qiongdongnan Basin, near Hainan Island in South China with a total area of 2,000 square kilometres.

According to the terms of the contract, Eni will conduct 3D seismic survey and drill an exploration well in Block 50/34 during the six and a half year exploration period. All expenditures incurred during the exploration period will be borne by Eni. CNOOC has the right to participate in up to 51% working interest in any commercial discoveries in the block.

Unconventional

BP and CNOOC sign billion pound LNG deals

Following an LNG deal for five million tons (Mt) signed between BG Group and CNOOC in May 2013, BP and CNOOC signed a US\$20 billion cooperation agreement on 17 June during Chinese Premier Li Keqiang's visit to the UK. The deal will see BP provide CNOOC with LNG for 20 years. By June, CNOOC has signed LNG deals of over 22.5 Mt with international energy companies including UK's BG Group and BP, as well as France's TOTAL.

The agreement will see the supply 1.5 million tonnes of liquefied natural gas (LNG) per year over 20 years starting in 2019. The LNG will be supplied from BP's global portfolio, using its own LNG tanker fleet and chartered ships. The gas will be delivered to a number of terminals in China. (Reuters)

Renewables

China commissions the world's third largest hydropower project

On 1 July, China's second largest hydropower station and the world's third-largest station Xiluodu hydropower station started full operation. With 18 giant generators and a total capacity of 13.86 GW, the station can generate 57.1 billion kWh of electricity a year, equivalent to power generated from a 20-million-tonnes coal-fired plant. Construction of the Xiluodu hydropower station, located in a major headstream of the Yangtze in South-western Yunnan and Sichuan provinces, started in 2005.

The Chinese government believes that hydropower stations can not only help meet surging electricity demand, prevent and control floods, but also help reduce greenhouse gas emissions from coal-fired plants. It is estimated that Xiluodu hydropower station will reduce greenhouse gas emissions of 48 million tonnes per year. (Xinhua)



Map of China (source: www.mybeijingchina.com)