

Power - China

Takeaways from power expert call with former Director at China Electricity Council

Industry Overview

Expert call key takeaways

We hosted Ms XUE Jing, a former Director at China Electricity Council to share her outlook for the Chinese power markets. She thinks coal-fired plants are seeing higher focus on profits to ensure stable operations and power output, and lower coal prices will help reverse losses still seen in 2023. Spot market trading will see more volatile prices given rising share of renewable power in the system, and she believes consumption ratio of renewable power will come down (more wastage) in 2024.

Power reforms: Capacity tariff & spot market trading

China's power consumption growth will likely be healthy at 6-6.5% in 2023, according to Ms Xue, and hence allowing more room to push forward reforms. Two key initiatives are: 1) Capacity tariff: a fixed tariff to cover the fixed costs of coal-fired plants by phase, which is initially ~RMB2c/kWh depending on provinces; 2) Spot power market trading: More provinces are rolling out measures in 2023 and the main challenge is how renewable power output, due to its intermittent nature, will impact spot prices. There will be upside (RMB1.5) and downside (-RMB1 to zero) limits but the volatility will rise. Spot market accounts for ~10% of market sales and will become higher for renewables. Policy goal in the next few years is to ensure the market mechanism for renewable power is built up before exiting more thermal power.

Thermal; More focus on profitability and operations

Ms Xue thinks China is focusing a lot on power security especially after power shortages in 2021, and hence will ensure profitability of thermal plants. That said, she thinks there was still ~40% of thermal power plants making a loss in 2023, although the situation has improved toward late 2023. She thinks the volatility in coal price will be lower in 2024 as China has made a lot of efforts to ensure adequate coal supply, with better local coal reserves to ensure stable power supply. In terms of power tariff contract, she thinks it will come down from the 20% cap in 2023, but it will still have a few cents above the thermal benchmark coupled with the capacity tariff.

Renewables: Consumption ratio may come down

Renewable power tariff will come down due to capacity tariff policy and more uncertain spot market. Wind & solar power capacity addition will likely reach 250GW in 2023, >80% of total new capacity. The share of power output will likely reach c.15%. Thus, she thinks it is realistic to see the consumption ratio for renewables will come down in 2024. She thinks the government will pay back subsidies to projects that are compliant, and more news may come around the upcoming national congress. On installation demand, she thinks the lower prices in wind and solar inputs are very supportive to higher demand and each provinces have specific installation targets to reach. But the rising grid constraints mean we may need to evaluate the pace of increase.

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