



Editorial

The growth of giants

potential and challenges for on-site power in China and India

With China and India poised to become the world's biggest economies over the next few decades (China overtaking the US in 2030 or so, and India around 2050) what can be said about their prospects for decentralized energy, and cogeneration in particular?

Anyone who has been to either country recently (and there's a fast increasing chance that you have: Beijing's Capital Airport has been the world's fastest-growing for the last two years, business travellers and tourists are just pouring in by the plane-load, and immense terminals are under construction) can see very clearly what we read and hear with growing frequency. The speed and scale of growth, and the potential for further growth, is awesome.

With this growth comes accelerating energy demand, and greater concerns about security. A major driver for on-site power generation in both countries – probably the major driver – is supply security for energy users. In China, the generation and grid companies simply have not been able to keep up. In India, many of the State Electricity Boards, for whom 'the customer comes first' principle is not a major feature of their mission statements, have mismanaged growth of the sector to such an extent that many industrial and commercial energy users invest in on-site generation as a survival strategy.

At first sight, prospects in China for developers and equipment manufacturers look especially tempting. There are power shortages, plenty of energy demand growth in the industrial and commercial sectors, increasing market share for natural gas and growing political awareness for what, in China, is known as 'CCHP' (combined cooling, heating and power). Commercial fundamentals show otherwise, however. Gas prices are high in the east, at the end of the west-east pipelines, and supply is uncertain. Power prices are politically managed and, despite increases over the last two years in line with coal prices, they are too low to encourage CCHP. In effect, the spark-spread is 'upside down'.

There are many other additional challenges, for example relating to interconnection and buy-back rates that can make on-site generation just too hard. The key driver for the moment remains supply security – the need to keep producing at all costs. WADE's new China Group is in the forefront of addressing these challenges. The Chinese Government's energy policy division, the National Development and Reform Commission, has asked WADE to submit proposals for what the new CCHP regulatory arrangements should look like. If the NDRC delivers on its commitments, some of the main problems should be relieved, if not removed.

WADE also has a new India Group. Here again, the key is to ensure that new supplies of natural gas are used as efficiently as possible in CHP plants rather than being diverted to high-waste CCGT plants, or 'mega projects' as they are known in India. The 2003 Electricity Act has helped to streamline procedures for some on-site generators and market activity is increasing. Here, therefore, immediate prospects look better than in China, but there is a way to go. The WADE India Group's new policy programmes will build on this potential.

These markets can't be ignored. The scale of the opportunity is enormous but they may be tough nuts to crack in the short-term. WADE's new China and India programmes can help you – contact us at www.localpower.org if you want to know more.

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