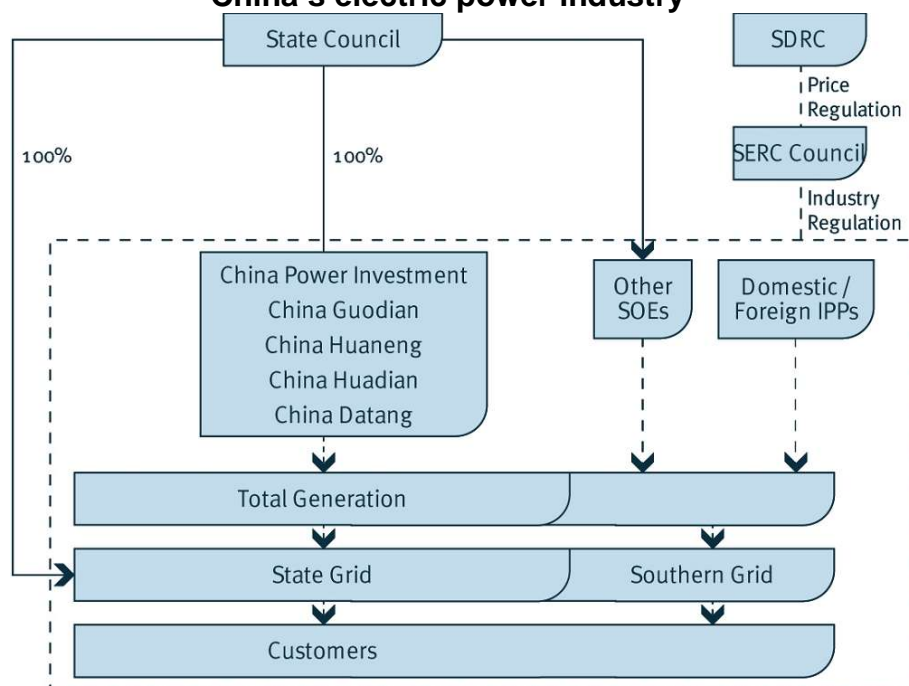


To assist in achieving a transparent regulatory environment, China has separated generation from transmission

In December 2002, ostensibly to introduce competition into the power industry, China separated its power-generation functions from grid management by abolishing the SPC and establishing five national IPPs and two grid companies (Exhibit 7.3). Concurrently, the government established the State Electricity Regulatory Commission (SERC), to regulate China's power industry by establishing a fair and transparent regulatory environment. Power tariffs are regulated by the State Development Reform Commission (SDRC). In practice, though, SDRC's tariff approvals will be heavily influenced by the recommendations it receives from the industry regulator, i.e. SERC.

Exhibit 7.3: Post-2002 administrative structure of China's electric power industry

SDRC regulates prices



The head of SERC has good free-market credentials

Chai Songyue has been appointed to the important post of head of the SERC. Previously Mr. Chai had been governor of Zhejiang province where he was involved with a pilot scheme for power pooling. Zhejiang province is well known for innovative market reforms; state owned enterprises (SOEs) account for only a small proportion of the region's economy, being dwarfed by private and other non-state enterprises.

Where is Gao Yan?

The abolition of the State Power Corporation (SPC) and the creation of the SERC occurred at a time when SPC's President and CEO, Gao Yan was under investigation for corruption. Gao Yan fled the country and is rumoured to be in Australia, where he is said to be enjoying the beaches on Queensland's Gold Coast¹. One of Gao Yan's accomplices,

¹ Urandaline's is based on Queensland's Gold Coast and, in an effort to locate Mr Gao, we continue to monitor elderly Chinese gentleman, especially in the supermarket.

Lao Derong, chairwoman of Shenzhen Energy Group was arrested and subsequently pleaded guilty to corruption charges, for which she received a life sentence.

The SPC's 45% of national capacity has gone to five national IPPs

Exhibit 7.4 identifies the five national generating companies and their domestic subsidiaries. At the time it was disbanded in December 2002, SPC controlled around 45% of China's power generation capacity, equivalent to 159,000 GW. The five national IPPs, which were effectively owned by SPC, have sold the former regulator's generating assets to their domestic subsidiaries.

Exhibit 7.4: Five national IPPs

Company	Domestic Subsidiary
Guodian Group	Guodian Power Development Corp Ltd Longyuan Power Group Corp Hubei Changyuan Power Development Corp Ltd
China Power Investment Group	China Power International Corp Ltd Shanxi Zhangze Electric Power Corp Ltd Chongqing Jiu Electric Power Corp Ltd
Huaneng Group	Huaneng International Power Development Corp. Zhejiang Southeastern Electricity Generation Corp Ltd
Datang Corp	Beijing Datang Electricity Generation Corp Ltd Guangxi Guiguan Electric Power Corp Ltd
Huadian Group	Hunan Huayin Electric Power Corp Ltd Shandong International Power Source Development Corp Ltd Heilongjiang Power Corp Ltd

Source: Electricity, Vol 14 No 1 (2003)

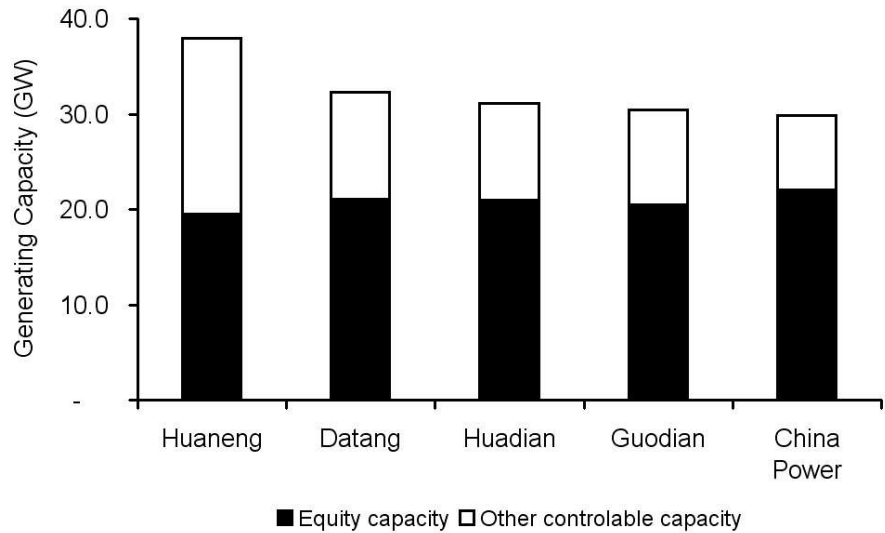
The five IPPs are roughly the same size and have the same mix of capacity

In establishing the five national power groups the government wanted to avoid the possibility of any future market failure due to unequal size or asset quality. After extensive analysis of factors such as controllable generating capacity, equity capacity, controllable assets and liabilities, employee numbers and regional distribution of assets, the government formulated a mix of generating assets that it claims embodies "equilibrium". The principle of equilibrium is illustrated in Exhibit 7.5, which shows that the equity-generating capacity of the five is almost identical. The lowest is the Huaneng Group at 19.38 GW, while the highest, China Power Investment Group is only marginally greater at 21.96 GW.²

² Division of 200 GW fixed assets, Electricity, Vol 14 No 1 (2003), p 2

Exhibit 7.5: Generating capacity of the five national IPPs

China Power is larger than the others but not by much

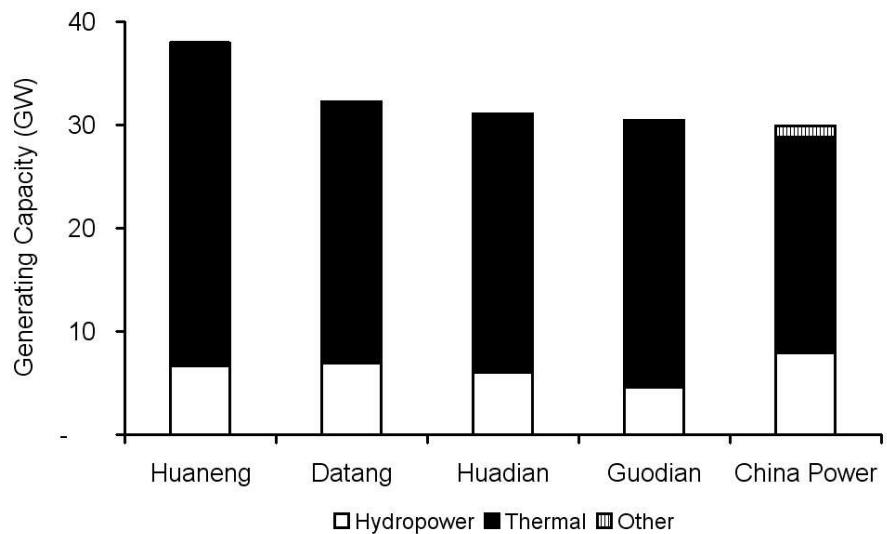


Source: Electricity, Vol 14 No 1 (2003)

Exhibit 7.6 also demonstrates the government's equilibrium objectives. Apart from the China Power Investment Group, which has 1.15 GW of nuclear capacity, the five companies have about the same mix of thermal and hydropower capacity. In each regional power market, no one company has more than 20% of the region's generating capacity.

Exhibit 7.6: Power source mix of the five national IPPs

The five have about the same mix of thermal capacity



Note: Based on total capacity
Source: Electricity, Vol 14 No 1 (2003)