

**Provisional Procedures for the Pilot Project in Direct Purchase of Electricity by Customers
from Electricity Companies**

(Dian Jian Shu Dian [2004] No.17)

To the Development and Reformation Commission (DRC), the Economics and Commerce Commission (the Economics Commission), and the Price Bureau of each province, each autonomous region, and each municipality directly under the Central Government. State Grid Corporation of China, China Southern Power Grid Corporation, China HuaNeng Group, DaTang Telecom Technology Co. Ltd, China HuaDian Corporation, China Guodian Corporation, China Power Investment Corporation, China Three Gorges Project Corporation, ShenHua Group Corporation Ltd, and other electrical power companies:

Pursuant to the 6th session meeting relating to the reformation of the electrical power system, the State Electrical Power Regulatory Committee, the State Development and Reformation Committee enacts and publishes the *Tentative Measure of Purchasing electrical power straight from power plants to electrical power users*.

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**Tentative measure of purchasing electrical power straight from power plants to electrical
power users**

The significant part of the reformation of the electrical power system is to carry out a trial that some primary electrical power users (referred as primary users), who are ranked as users of the high-tension-grade electrical power or who consume large volume of electrical power, purchase electrical power straight from the power generation enterprises in certain of regions where meet a number of requirements. This tentative measure has been established for the purpose that the measure can be implemented in a ruly and regulated way, according to the *Notice by the State Council of Distributing a Scheme of Reformation of Electrical Power System* (GuoFa[2002]No.5) and the content discussed on the 6th session meeting of Reformation Committee of the Electrical Power System under the State Council.

I. the core idea, purposes and principles of the Tentative Measure

(1) the core idea of encouraging primary users (including financially independent electrical power suppliers) to purchase electrical power straight from electrical generation enterprises is to establish a fairly-competitive, open and orderly, healthily-developed electrical market system in which the enterprise management is separated from the government functions. This establishment will be undertaken to encourage the subject of the market developing, and to accelerate the reformation of the price mechanism of the electrical power concerned the real industrial situation, referring to the international experience, complying with the law of the development in electrical industry, for the purpose of securing the safe running, based on the fair open of the electrical power network, centering a main issue of deciding price for transporting electrical power, and featured as meeting between the demand party and supply party.

The reformation of encouraging primary users to purchase electrical power straight from the power plants is a complex and systematic improvement campaign, which needs to be carried through reliable experience from trials.

(2) the purposes of the trial are as following:

----to optimize the allotment of the electrical resource, to improve the efficiency of the resource usage, and to accelerate the development in electrical field;

----to introduce a competition mechanism in the areas of generating and selling electrical power, to facilitate electrical power enterprises to reduce their cost and to improve their efficiency, and to improve the competition ability of the whole state

----to discover an effective method to separate the generation and transportation of the electrical power, and to open the electrical network market to more electrical power enterprises, to change the situation that the grid company has an exclusive right to purchase the electrical power and to encourage qualified companies to bid on the market, to break the monopoly and to develop the electrical power market through more fairly competition;

----to design a rational price deciding system which can accelerate the reformation of deciding the electrical power price and the sustainable development in the electrical power network.

(3) the trial should be implemented following the principles below:

----to deploy unitively, carry out slowly, steadily, and with schedule, and prevent from

rushing into mass action:

----to secure the trial with regulations and rules, to protect legitimate rights of primary users,

power plants and grid providers, and to prevent deregulations:

----to benefit both sellers and buyers of electrical power, and to accelerate primary users,

power plants and grid providers to function well in the market;

----the trial should be undertaken in proper sequence to maintain the balance of electrical power between demand and supply, and to maintain the price at a steady level;

----the trial should be undertaken actively and steadily with the security of the state's interest, with relevant outfit and necessary external conditions:

----to secure the grid running safely: power plants and primary users who are involved in the trial agree to reduce the usage of electrical power in emergency or in high peak.

II. the scale and conditions of trial

(4) the enterprises involved in the trial need to locate in the area where the supply of the electrical power is plenty. Other required conditions are as following:

The primary users, power plants (including internal financial settlement power plant, and grid providers, who are involved in the trial, should be a economic entity independent as legal person in law, independent to settle and balance in finance, and independent to take civil responsibility.

Other primary users, who measure up to the states' industry policy, whose usage of electrical power is relative steady, whose unit production value consumes source at a low level, and whose production pollution is at a low level, may apply to participate in the trial.

those power plants which applies to the industry policy of the state and parallel operation, those thermal power plants (including nuclear power plants) which installed capacity is 600,000 kilowatts or over and unit capacity is 300,000 kilowatts or over, and those water power plants which installed capacity is 200,000 kilowatts or over and unit capacity is 100,000 kilowatts or over, can apply to the trial.

(5) The electrical power purchased by the primary users from the power plants can be transported through current public network. Where there is a need to build, expand or rebuild the network, the reconstruction schedule should be conformed to the developing planning of the electrical power network, reported to competent governmental department, constructed and

operated by the grid providers. The primary users who have had their own legal electrical network can transport their purchased electrical power through these network lines after examined and verified by competent governmental departments.

(6) the electrical power, purchased by primary users who are non-electrical power providers, are only for their own use. The kind of electrical power cannot be resold in disguised form to other electrical power users. The electrical power, purchased by the primary users who are electrical power providers, can only be resold strictly according to relevant regulations and policy.

(7) Those electrical power plants, whose electrical quantities are assigned by the government, cannot participate in the trial at the present. The financial settlement position of and the electrical quantities supplied by the participant enterprises will keep the same.

(8) all enterprises in the trial should pay relevant taxes, fees and fund regulated by the government.

III. main contents of the trial

(9) the grid market is open fairly. The grid providers should provide their service through network transportation where the network works well and safely.

(10) the electrical power price is decided by both parties through negotiation. The price and payment method will be decided by both parties through negotiation, and indicated in the contract clearly.

(11) to rate the price of transporting electrical power fairly and rationally. According to the *Notice by the State Council of Distributing a Scheme of Reformation of Electrical Power System* (GuoFa[2002]No.5), the price of transporting the electrical power is decided by the department of price control based on the principles of Rational Cost, Rational Profit, Legal Tax Assessment, and Fair Burden. The rate of electrical power imposed on main industrial factories will be accounted based on the principle that the power price applied to main industrial factories extracts the average power price. The power price applied to main industrial factories needs to temporarily consider a factor of the respectively-matched voltage grade within the power network where the power purchasing transaction was made. The price of transporting electrical power should be reported to the department of the price control under the State Council and be executed after approval. The price for transporting the electrical power applies to the new rate where new policy is published by

the competent departments.

(12) regulate the contract of purchasing the electrical power. The primary users, power plants and grid providers should enter and implement the purchasing contract strictly. They may refer to the Straight Purchasing Contract of Electrical Power (Model) and the Contract of Transporting Electrical Power (Model). The former contract comprises of contents of burden, electrical capacity, providing method, production arrangement, measure, settlement and balance, unit price, dispatch management, the liability for breach of contract, damage and compensation, and dispute resolutions.

(13) special and accessorial service. The electrical network can provide special and accessorial service based on the requirements in the service quality and reliability standards. The power plants and primary users can provide accessorial service to grid providers according to the contract. The price for special and accessorial service is in accordance with relevant regulations of the state.

The grid providers should not charge power plants and primary users extra fees for special or accessorial service where to determine the price of transporting electrical power. The price of transporting electrical power should be subject to the principle that the power price applied to main industrial factories extracts the average power price. The power price applied to main industrial factories needs to temporarily consider a factor of the respectively-matched voltage grade within the power network where the power purchasing transaction was made.

The primary users should evaluate, report and specify their fees for special and accessorial service in the purchasing contract, where they have had their own transportation network, and consign the grid providers to dispatch and operate the transportation.

(14) strengthen management and information disclosure. The power plants and primary users should comply with unified dispatch, and disclose information and documents relating on the sold electrical power and relevant transportation information to the dispatch department. The dispatch department should conform to the principles of Fair, Justice and Publicity and corresponding contracts, and disclose dispatch information timely to power plants and primary users.

IV. the Organization and implement of the trial

(15) the trial will be led by the Reformation Committee of the Electrical Power System under the State Council. The State Electrical Power Regulatory Committee and the State Development and Reformation Committee will enact specific rules on the implement of the Tentative Measure and relevant contract models. They are in charge of the implement of the trial, and of ensuring the trial will be carried on in a legal way. The list of provinces involved in this trial will be decided by the two committees whereas requests by provinces.

(16) Enterprise participants should draft an implement scheme in accordance with the Tentative Measure and the Specific Rules of Implement, and submit for preliminary examination to a relevant office under the provincial economic administration department, which department is designated by the Provincial government. Those successful schemes which pass the preliminary examination will be reported to the two committees and be put in practice after approval by the committees.

(17) without approval by the government, any enterprise should not undertake the trial presumptuously. The State Electrical Power Regulatory Committee and the State Development and Reformation Committee will take sanction against the violation conducts according to their respective duties and responsibilities.