
Power firms bleed from high costs

Power companies are set to incur losses this year despite making profits in 2009, due to the sharp hike in contract coal prices, said industry insiders.

Profits of power producers would be dented due to the price hikes, said Xue Jing, director of the statistics and information department under the China Electricity Council (CEC).

Xue said coal price hikes are certainly in the offing, though it would be difficult to estimate the exact measure by which prices would be hiked.

"The power industry is expected to make losses this year. Some thermal power plants have already plunged into the red in January," she said.

Echoing Xue's views, Wang Shuang, an analyst with United Securities, said in a report that coal prices may go up by 8 to 10 percent this year.

"Rising fuel prices would push thermal power plants into the red during the first quarter," Wang said in the report.

Power firms would have to bear the brunt of the disparity between market-based coal prices and government-capped electricity tariffs, said Xue.

Coal-fired power accounts for around 70 percent of China's total power generation, and rising prices have always been a headache for power generators. In 2008, due to the sharp rise in coal prices, most of the major power firms incurred huge losses in their generation business.

However last year, because of the relatively softer coal prices, many power companies saw rapid growth in their profits. Huaneng Power International, the listed arm of China Huaneng Group, the largest power producer in the country, said in a statement that its 2009 profit would jump by 100 percent from a year earlier, due to the fall in fuel prices and adjustments in power prices.

Huadian Power International Corp Ltd, the listed arm of China Huadian Corp, another major power producer in the country, also said in a statement that the company would return to profit in 2009.

China's power demand is expected to rise sharply this year on the back of brisk industrial activities. That in turn, would further bolster demand for coal, said Xue.

International coal prices have also started to firm up as the global economic recovery has started gaining ground.

China's power consumption is expected to rise 7 percent this year in tune with the anticipated economic growth rate of 8 percent, according to the State Electricity Regulatory Commission (SERC).

Coping with hikes

In order to cope with escalating fuel costs, many Chinese power producers are now developing their own coal businesses.

China Huaneng Group produced 44.08 million tons of coal last year, an increase of 21.59 million tons from a year earlier.

The company plans to produce 56.86 million tons of coal this year, said Cao Peixi, general manager of the company.

Huaneng Yimin Coal Electricity Corp, an integrated coal and power producer under the Huaneng group, has an installed capacity of 2,200 mW and produces 15 million tons of coal every year.

"By using our own supplies of coal, we have reduced the operating costs to a large extent," said Yin Long, general manager of Huaneng Yimin.

The company also sells some of the coal to other power companies. It is also planning for its own coal-to-gas and coal-to-chemical projects to further diversify its business portfolio, said Yin.

Domestic power companies have also fast tracked their development of other power generation methods like nuclear and wind power, to reduce their dependence on coal. Huaneng, China Power Investment Corp and China Guodian Corp have all started their own nuclear projects.

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