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China forced to ration electricity

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Chinese provinces are rationing electricity as soaring coal prices squeeze power generation companies, underlining the challenges facing the world's largest energy consumer as global fuel prices rise.

While China experiences power cuts each summer, some provinces have started rationing earlier than usual this year. In recent days Hunan, Zhejiang, Jiangsu and Anhui provinces have implemented cuts, alongside Shanghai and Chongqing.

Chinese officials have been warning for weeks that shortages would be more severe than usual this year. On Tuesday, Xue Jing of the China Electricity Council, an industry body that reports to state regulators, told state media that China would "face its most severe electricity shortage since 2004".

Ms Xue said there could be a national shortage of 30m kilowatt hours this summer, which she said would equate to the consumption of three Chongqings, referring to the southern city of 31m.

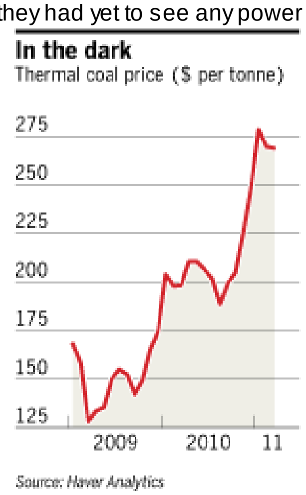
Chinese electricity companies are facing financial pressure from the increase in global energy costs as Beijing hesitates to increase state-controlled electricity prices because of concerns over inflation.

While the price of thermal coal – which fuels 70 per cent of China's power plants – has risen by nearly one fifth since last year, Beijing has raised electricity tariffs by just 2 per cent during the same period, and the price gap has prompted some stations to close or reduce generation.

"Power plants promise industry regulators that they will generate power at full steam, but privately they don't because of their financial losses," explains Lin Boqiang, an energy economics expert at Xiamen university.

Compounding the problem of rising energy costs, hydropower generation has also fallen after a dry winter in southern China. In Changsha, the capital of Hunan province, which draws much of its electricity from hydropower, roadside lights have been dimmed and city districts are experiencing rotating one-hour power cuts, according to one resident, who first noticed the changes a few weeks ago.

The southern province of Guangdong – the most industrialised province in China – has issued stern warnings about its power supply, saying the shortfall could reach 4m kW per hour during May, June and July. But several manufacturers in the province, which borders Hong Kong, told the Financial Times they had yet to see any power cuts.



Power outages will prompt more manufacturers and businesses to rely on diesel generators for electricity. The shortages are expected to boost demand for diesel, just days after **China banned exports** of the fuel.

Analysts forecast that if **crude oil prices** rise above $130 per barrel – from $110 now – and state-mandated fuel prices remain unchanged, China will see shortfalls of gasoline and diesel as refiners cut back on loss-making runs.

Although the electricity shortages have yet to have a significant impact on industry, analysts say the problem could grow in coming years if financial losses slow investment into thermal power plants.

On Tuesday, China Electricity Council reported losses of Rmb18.3bn ($2.8bn) for Chinese power producers during the first quarter of this year.

Energy is one of the few sectors in China dominated by state price controls, and analysts blamed Beijing for mismanaging prices.

"China is using planned-economy methods to regulate a market economy," said Li Chaolin of the China Coal Transportation and Distribution Association, citing the state controls on coal contract prices and electricity tariffs. "Authorities are getting too heavily involved in the [coal and power] market," he added.

Additional reporting by Gwen Chen in Beijing and Rahul Jacob in Hong Kong