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Winds of change cloud industry power game

Eric Ng in Beijing

China's soaring wind power equipment manufacturing industry may suffer from over-capacity and poor quality if the current rampant capacity expansion is not checked, warned a foreign producer in the mainland.

The sharp rise in inexperienced suppliers may flood the market with products of questionable quality, India-based Suzlon Energy China chief representative officer Paulo Soares told the Global Energy Forum last week.

'China has massive power equipment manufacturing capacity, in many businesses, especially in the wind segment,' he said. 'But many producers just came to the market last year and don't have experience in wind ... there will be a lot of pressure on deliveries, components and personnel.'

Lured by the sector's explosive growth, the number of companies that entered the wind power business grew to 58 currently from 32 at the end of last year, according to industry regulator National Development and Reform Commission's energy research institute deputy director Li Junfeng.

China's total wind generation capacity doubled last year to 2,600 megawatts and is expected to double again this year to 5,000 MW.

Although Mr Soares' forecast is 10,000 MW by 2010, double the central government's target of 5,000 MW, he also estimated the wind equipment industry to have 6,500 MW of annual production capacity at the same time, which will lead to a substantial over-capacity risk.

He said a large chunk of orders handed out in the past two years was given to inexperienced producers who accepted low prices required by project developers.

The central government's implementation of a wind project bidding system basically favours bidders who offer the lowest tariff and has forced developers to squeeze their suppliers after winning project concessions.

Industry executives expect some projects will never be built as their proposed tariffs are not economically viable, while others may suffer losses due to equipment problems and below-expectation utilisation rates.

'We can build 50,000 MW of capacity, but whether it can generate any power is another question,' he said. 'We must talk about megawatt-hour [output], not megawatt [generation capacity].'

Mr Soares noted that only 37 per cent of projects awarded by the central government in 2004 were installed, while those granted in 2005 and last year were not all built.

Smaller projects awarded by the local governments, on the other hand, have a higher completion rate because they do not require Beijing's approval.

Such projects, with an average tariff one-fifth higher than those given by the central

government, had an implementation rate of 100 per cent for projects given out in 2004 and 2005 and about 37 per cent for those handed out last year.

Projects less than 50 MW in capacity do not require central government approval and tariffs are not subject to open bidding. Central government concessions are typically 100 MW in size. Developers have three years to fulfill their contracts with the government.

Beijing's implementation of a minimum 70 per cent local participation on wind power equipment for new projects helped lift domestic makers' market shares and prompted foreign players to build more plants.

Domestic equipment producers doubled their market share to 40 per cent last year from 20 per cent in 2004, while that of foreign suppliers has fallen to 60 from 80 per cent.

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Commission to study wind resources

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Eric Ng

China's economically exploitable offshore wind resources may be much smaller than widely believed and large-scale exploitation may be a decade away, according to industry experts.

It is believed that offshore China has 750,000 megawatts of wind resources - three times that of onshore wind resources - but Li Junfeng, a deputy director at National Development and Reform Commission's energy research, said such an estimate was unreliable.

'The figures are quite misleading and should only be used as a reference because they were derived by modifying data from England,' Mr Li told an energy forum. 'England is an island, but China is not.'

He said only a narrow strip of coastal region of some 60,000 square kilometres had economically-exploitable resources, compared with 600,000 square kilometres of the wind-rich Xinjiang, Heilongjiang and Inner Mongolia regions.

Mr Li said the commission planned to set up several thousand recorders by 2010 to collect wind data. 'It could well be the case that our exploitable offshore wind resources are several times smaller than our onshore resources,' he said. Industry executives said substantially higher equipment costs may discourage investments despite utilisation hours of offshore wind farms being typically longer.

'Offshore wind projects will happen in China; there will be some promotion projects. But why build offshore if they are cheaper onshore,' said Thorbjorn Rasmussen, president of Denmark-based wind turbine maker Vestas Asia Pacific.

'In the next five to seven years, there may be two to three projects but it may take 10 years for any sustainable development.'

Mr Li said construction costs of offshore wind farms could be double those of onshore ones, as most of China's coastal areas are exposed to destructive typhoons.

Based on data from previous trials, offshore projects may need to charge tariffs of 90 fen

to one yuan per kilowatt-hour to be attractive for investors, 20 to 30 fen higher than those onshore.