The Research on the Opportunities and Challenges for Private Enterprises under the Electric Market Reformation

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ABSTRACT

Private capitals were allowed to entry the sale-side of China electricity market after the suggestions on further deepening the reformation of electric power system was released by Chinese government. New private electricity companies will surely meet opportunities and challenges in the new field under the formation. The paper based on the new policy environment for electric power industry, described the advantages in policy support and market capacity, discussed the technology, professionals and competition problems companies will meet and finally talked about the development suggestions for companies under the current reformation.

INTRODUCTION

Since the early reformation of electric power system was conducted in 2002, the level of marketization and competition in electric power market have been developed continuously. However, there still exist some problems, for example, the monopoly advantage of Power-Grid companies imposed restrictions on the increasing efficiency of the whole electric-power industry.

On March 5th, 2015, Chinese government released the document of suggestions on further deepening the reformation of electric power system, which marked a new stage in electric power reformation as well as the beginning of the competition mechanism to the sale-side after the generation-side was opened in 13 years ago. The main purpose of reformation was to open the market of electric power sale and distribution and bring price competition into market. The revolution presented opportunities to enterprises of power generation, enterprises of power sale and enterprises of power consumption[1].

Statistics shows that 1416 enterprises have been applied power sale business to industrial and commercial sector in less than one year since the sale-side was opened[2]. Thus it can be seen that electric power market has great attraction for
private capital. Under the new situation, the development of private capital in electric power market faces both opportunities and challenges.

THE STRATEGIC VISION OF THE ELECTRIC POWER SUPPLY SYSTEM REFORMATION

The core aim of the current electric reformation is quite different from what it used to be in 2002. The last round reformation was aim at separating power plants from power grids and bring competitions into market to break the monopoly situation. However, according to the latest government documents, a new electric system will be established and it will be highly demanded in safety, low-carbon, energy-saving and emission-reduction. The ultimate aim is to lead transformation of electric power generation, consumption and technology[3]. The sufficient sale-side electricity market is the critical success factor for the current reformation as well as the most stern challenge. It is referred in the government document that electricity allocation and sales business will be opened methodical to private capital in the actively and steadily advancing reformation. The methodical opening of electricity allocation and sales business means that the traditional power-grid company monopoly situation will be broken[4]. On the condition of the current electric reformation, market accession mechanisms are being established and improved and investment mechanism reformation has progressed tremendously. There is no limit on private capital getting involved in electrical industry, which means that private capital is given considerable latitude in both penetrating and withdrawing from market.

Figure 1. Total electric power consumption in China (2010-2015).
According to the latest report released by the State Electric Regulating Commission (SERC) of electrical price, the average electrical price in China electrical market is 0.492 yuan per kilowatt hour and the total electrical consumption in 2015 is 5.55 trillion kilowatt hours. It can be calculated simply that the whole capacity of market would be 2.73 trillion yuan. Electric sales business is opened and so social agents are introduced into market. It will activate the market with a capacity of five trillion kilowatt hours and will witness the investment opportunities go with it.

THE BASIC PROBLEMS OF PRIVATE CAPITAL EXTENDING IN THE ELECTRICITY MARKET

Peer Competition

By the end of July 2016, Guangdong administration for industry and commerce has been released the catalog including 66 electricity companies. At those 66 companies, the number of state holding corporations, private holding corporations and natural person holding corporations is 20, 22 and 24. And as we can see in the picture, the component ratio is 29.85%, 32.84% and 35.82%.

![Figure 2. Electricity companies in Guangdong admittance catalogue.](image)

Private enterprises will firstly meet the directly competition from electricity companies belongs to POWERGRID if they want to grab current clients. Seizing market share against state enterprises without a good business model is tantamount to beard the lion in his den. Competition from enterprises of power generation may be another problem. There is a strong trend of power generation companies to develop electric sale service by invest power grid system to achieve the integration of power producing, conveying, distribution and sale. Private companies will
compete directly with them in the way of policies, resources and market. Ant the last one is the competition from original local power grid companies including companies have background of central or local government. It would be hard for private enterprises to stand against this kind of competitors. But reasonable market segmentation and positioning strategy can help to break the situation.

Service Threshold

In addition to registered capital, a self-contained system of client services and power transaction is essential for private companies who decide to dabble in the electricity market. For those who plan to build their own electric power grid, it would be a large challenge to be familiar with the power grid dispatching and operation business system, which have been established by power-grid company for decades. Because of the difference in business scope, management model and profit-making way, it would be much more reasonable for private companies to establish a new type of operation mode instead of following it without change. A lot of labor forces and financial forces surely should be inputted and the explore progress is bound to be difficult and protracted.

Technology Threshold

As a special kind of commodity, electric power has synchronism in producing, conveying, distribution, sale and consumption. Considering this character, the technology supportive system must be built to meet the high demand in coupling of business and technology[5]. The technology supportive system will go across all fields of primary electricity equipment and system, secondary electric equipment and system and information system. Besides these, a great number of business model, business model, safety model and statistics model should be established. Electricity enterprises would definitely meet the technology challenge even with the professional firms joining. In the evolution of the company, it should adjust to the increasing use of energy Internet technology and learn to understand customer and market technology requirement thoroughly, which will posed great challenge.

Professionals Shortage

Electric companies need a goodly number of expert professionals in the particular fields including power grids dispatching, power grid operating, marketing, engineering consultation, engineering design and energy saving service. Company relies on these professionals to get sustained and rapid development. Though some critical positions can be filled by introducing qualified personnel from power grid companies, the most part of positions need to be filled by recruiting, training and assessment.
PROPOSALS FOR PRIVATE COMPANIES UNDER THE ELECTRIC MARKET REFORMATION

As the Chinese electricity sale-side market is being established, the private electricity enterprises ought to begin with focus on building an optimization model for clients to increase electricity utilization efficiency. On such basis, companies are able to search for further expansion by some marketing means such as formulating a diversity of pricing schemes and keeping good cooperates with related government departments. All these following proposals can help electricity companies avoid predictable risk and become a stable and mature structure under the new formation.

Product Portfolio

Considering that electricity commodity have no difference in quality, electricity companies should focus on forms and extensions based on proving quality and adequate electric power as core commodity. Basing on the clients need, enough value added services, for example, demand-side services provided as an energy-saving counsellors or an energy-saving reform designers, should be offered to clients[6]. At the same time, product portfolio of price different in peak and valley electricity should be designed to increase the diversity of products. On the other side, for widening the development path, power generation can be an efficient reserve force when private companies has a shortage in power supply, this is why companies would better seek tie-ups with power generation enterprises and form a long-time and stable alliance to assure a stable supply[7]. Besides, cogeneration plan will be a good development direction for companies.

Relationship Management

How to participate in discussion and coordination with government officials which is related to cooperate project is another key task under the formation. In the early stages of market entry, companies should strengthen the communication with government and jointly create a better business climate to seek policy support. A good understanding of policy information will help companies possess strong analytical skills to evaluate industry development trends, opportunities and risks to make better decisions. Take the view angle of development to treat the issues, participate government business invitation and investment attraction as early as possible will help companies seize the future potential of high-value clients[8].

CONCLUSION

The current electricity market reformation indicated a beginning of new
electric power supply system. Sale-side reformation, as an important content of suggestions on further deepening the reformation of electric power system, will introduces private capitals into electricity market and improve the investment mechanisms gradually. According to the latest report by SERC, Chinese total electricity consumption has reached 5.5 trillion kilowatt hours in 2015 and the capacity of market is 2.73 trillion Yuan or even more. Both market capacity and policy support have created good conditions for private companies entering the market.

However, there still exist some obstacles should be overcame to come onto the market. The first concern is how to gain market share against powerful competitors, including early power-grid companies and other new entrants. The next problem is technology threshold and talent shortage caused by the particularity of electricity commodity. And the last one, problems about how to establish an efficient business mechanism to combat market risk. To overcome all these obstacles, valid strategy should be implemented in the way of product portfolio and relationship management. Only in this way can private electricity sale enterprises share the benefits of Chinese electricity reformation.

REFERENCES