Gas Crunch
US natural gas inventories could be at seriously low levels at the start of winter this year, if current rates of liquefied natural gas imports remain at record lows.

China Energy Policy Analyzed

Rising concern over Chinese energy security and the nation's mounting investments in energy resources abroad have lent credence to the notion that China's central government operates a coordinated foreign energy policy--what has been nicknamed "energy diplomacy" by some.

But experts argue the term is misleading, as Chinese foreign policymakers have less control over energy decisions than do the nation's mammoth energy companies, UPI said.

"I think there is quite conflicting evidence as regards which party is in the driver's seat," Linda Jakobson, senior researcher at the Finnish Institute of International Affairs, said during a recent talk at George Washington University's Elliot School in Washington.

In her view, Chinese policymakers are "scrambling to keep abreast" of their nation's energy firms.

That's not a simple task, considering the companies' size. According to PFC Energy's 2008 ranking of the world's 100 largest listed oil and gas firms, PetroChina (a subsidiary of Chinese National Petroleum Corp.) and Sinopec claimed first and fifth places, with market capitalizations of $723.2 billion and $249.5 billion, respectively.

That placed them ahead of companies such as Petrobras, BP, Total and Chevron, all of which occupied slots in the Top 20.

Erica Downs, China energy fellow at the Brookings Institution, acknowledges Beijing's support of its nation's energy heavyweights but agrees government control is less common.

"In some cases, the companies ask the government to provide diplomatic support," she told UPI. "In other cases, parts of the central government, such as the Ministry of Foreign Affairs, may not find out about the deal until it is done." As such, Downs questions the concept of "energy diplomacy."

Although the central government has encouraged China's oil companies to invest abroad, it is the companies that are making the actual investment decisions.

"I find the term to be misleading when it is used to implicitly or explicitly refer to a highly coordinated government-company strategy to acquire energy assets abroad," she said. "Although the central government has encouraged China's oil companies to invest abroad, it is the companies that are making the actual investment decisions."

Jakobson offered CNPC's involvement in Sudan as one example of profit-over-politics foreign investment. According to her, much of the oil that CNPC pumped in Sudan between 2001 and 2006 was not captured by China, but sold to other countries. Japan, for instance, imported more Sudanese oil than China in 2006.

While CNPC's Sudanese operations have been a commercial success for the company, they have not alleviated Beijing's security concerns.

"CNPC's oil operations in Sudan have hardly enhanced China's energy security, which the Beijing government so ardently pursues," said Jakobson.

Not only does this cast doubt on the "energy diplomacy" concept, it suggests an emerging tension between profit and politics. In a 2007 report, Downs warns: "The emerging rift between the commercial objectives of the companies and the political objectives of Beijing is likely to widen in the years to come."

In the meantime, commercial objectives seem to wield the most influence. According to a senior policymaker with whom Jakobson spoke off-the-record in January, Chinese energy companies' foreign operations have handicapped the nation's traditionally non-interventionist foreign policy and are nudging it toward one of "constructive interference" instead.

"In the case of Sudan, I would argue that the substantial investments of CNPC have contributed to China's changing position on non-intervention," she said. Beijing's feet-dragging at the United Nations regarding the unrest in Darfur has been widely publicized.

The government's arguably surprising backseat role is due to the long list of competing concerns demanding policymakers' attention, said Jakobson, such as securing reliable export markets and other natural resources.

"Formulating foreign policy to meet all of these objectives is sometimes not possible," she said.

And where energy policy fits in the foreign policy hierarchy remains unclear.

"Energy and environmental issues have received increasing attention from China's leadership in recent years, primarily because of energy shortfalls and environmental degradation within China's borders," said Downs.

But "where energy ranks in China's foreign policy priorities is going to vary over time and from country to country."

Manila Pushing for Cheaper Electricity

Philippine authorities are pressing the country's biggest electricity utility to cut prices for the poor.

The unprecedented move is aimed at easing the effects of soaring food and energy costs that have pushed inflation to a three-year high, FT reported.

Energy regulators began considering a government petition on May 6 calling for Manila Electric Co (Meralco), which distributes electricity to more than 4m households in the capital and surrounding areas, to increase discounts for low-income customers or to expand the number of households entitled to subsidies.

Meralco is controlled by the wealthy Lopez family, which also owns the country's biggest private power producer and the biggest television broadcaster.

The petition is considered highly unusual because it was filed at the insistence of President Gloria Macapagal Arroyo, who asked business leaders last week to support the government in what she described as a "tough legal fight". About 1.8m of Meralco's residential customers who use 100kwh a month or less already enjoy discounts of 20 to 50 percent, covered by cross-subsidies collected from commercial and industrial customers.

The government wants the discount raised to 60 percent, or the subsidy scheme expanded to cover households consuming up to 150kwh a month.

The government also wants Meralco to stop charging customers for systems losses form theft or leakage, which account for about 8 percent of the company's costs, and to cut its distribution rates to the levels charged by other large private electricity utilities.

"It's the first time ever that the Philippine president has instructed a government department to file a petition to compel a private electric utility to cut rates," said Ivanna de la Pena, Meralco's chief economist.

Consumer price inflation rose to a three-year high of 8.3 percent in April, from an average of only 2.8 percent in 2007, increasing the pressure on Macapagal to step up measures to help the poor and to avert potential unrest.

The government is rolling out an elaborate scheme to guarantee the supply of cheap rice to slum dwellers in Manila and surrounding areas.

The start of regulatory hearings on the government's petition for Meralco to cut its rates came as the head of the pension fund for state workers, Government Service Insurance System (GSIS), began a public spat with the Lopez family management over the way the company is being run.

Winston Garcia, the president of GSIS, which owns about a quarter of Meralco shares, has complained that the company's management has refused to divulge details of Meralco power purchase deals with Lopez-owned power companies.

In the News

US Wind Market Sends Mixed Signals

The wind energy industry is beginning to repower existing turbines for greater efficiency and expanding to offshore locations in Europe, and despite unstable incentives for wind power in the United States, strong growth potential and the weak dollar are buoying interest in the US market.

For most firms, the biggest barrier to the US market is the lack of stable incentives, Energy-daily said.

The Production Tax Credit, which was due to expire at the end of 2007, was renewed in 2006 for one year until the end of 2008. It provides a 2 cent per kilowatt-hour credit to project developers for the first 10 years of operation but has expired three times since it was first created in 1992.

"If it is allowed to expire, the industry and investors worry that growth will fall off--although 25 states and the District of Columbia have their own renewable electricity standards and that could provide somewhat of a cushion," Aaron Severn, legislative representative for the American Wind Energy Association, told United Press International at the Hanover Innovation Fair from April 21-25.

"That's an experiment we don't want to undertake. Very dramatic decreases in the amount of installed wind energy occurred in the past when the PTC expired. Our member companies say that projects would be put on hold and investment would flow into more stable markets if the PTC is not extended immediately," he said.

"Developers want long-term market stability," he added, emphasizing the importance of long-term, robust incentives.

The AWEA aims to have 20 percent of the nation's electricity supplied from wind by 2030.

But infrastructure, including new technicians, is needed to support the industry's growth. Miner said that upgrading the country's aging electricity grid could be linked with the need to connect wind energy to high load centers.

Technical Barriers

The 2020 goal for wind, which currently provides 1 percent of US electricity, would be achieved by implementing appropriate policies, such as a federal renewable electricity standard, and overcoming technical barriers by improving infrastructure and investing in R&D for taller towers and better blades to capture more of the wind, Severn explained.

A feasibility study conducted in 2002 by the Department of Energy's Energy Information Administration concluded that 20 percent of US electricity could come from all non-hydro renewables by 2020--currently contributing 3 percent of US electricity.

Richard Stuebi, a consultant who founded NextWaveEnergy, told UPI in an e-mail message that the goal for all non-hydro renewables is "technically doable, but in practice very much a stretch." He said a national renewable electricity standard for 20 percent would be needed, and something that aggressive isn't likely.

Carbon legislation could obviate the need for a national renewable electricity standard, rather allowing market forces to drive them in--along with other clean energies and more efficiency. These would offset mainly coal, which accounts for 49 percent of the US electricity mix.

Stuebi also noted that if there were compliance for all state renewable mandates, it would lead to something like 10-15 percent renewables by 2020. He agrees that consistent incentives are vital for long-term, large-scale investments.

"In the absence of any carbon legislation, and in the face of enduring embedded subsidies to mature fossil and nuclear energy, a long-term extension of the PTC only seems reasonable."

Wind Potential

Annual wind energy growth in the United States topped previous records at about 45 percent in 2007 bringing total installed wind capacity to 16,818 megawatts. The US regions with the biggest wind potential as measured by annual energy output are the Midwest and West--with North Dakota and Texas on top. Texas had the largest growth in 2007 and now leads in installed wind power capacity at 4,356 megawatts.

Worldwide, wind power grew at a record level in 2007--adding 20,000 megawatts of wind capacity and bringing global installed wind capacity to 94,000 megawatts.

Michael Weidemann, Canada sales manager for Enercon, one of the world's leading wind turbine manufacturers, said his company can't afford to invest--either in production facilities in the United States or sales--given the instability of the PTC.

"We're a private company and we need a pipeline that's secure for projects. We establish 12-year partnerships with customers. I believe our competitors have lost lots of money," he told UPI at the trade show.

He said Canada's incentives aren't that much better than those in the United States. Only Ontario has incentives comparable to those in Germany, but Enercon has sales in Nova Scotia and Alberta as well.

Vestas, a Danish company and another leading wind turbine manufacturer, has in-house manufacturing of the main wind turbine components in the United States, but added its first manufacturing facility, a blade factory in Windsor, Colo., in March 2008 and announced plans to build a tower factory, but Vestas Americas is primarily sourced by Vestas' manufacturing facilities in Europe and Asia.