S&P Global
Ratings

RatingsDirect®

# China's Proposed Cuts In Solar And Wind Power Tariffs Will Normalize Returns For Generators, Have No Rating Impact


**Primary Credit Analyst:**
Vincent Chow, CFA, CPA, Hong Kong (852) 2532-8088; vincent.chow@spglobal.com

**Secondary Contacts:**
Gloria Lu, CFA, FRM, Hong Kong (852) 2533-3596; gloria.lu@spglobal.com
Apple Li, CPA, Hong Kong (852) 2533-3512; apple.li@spglobal.com


HONG KONG (S&P Global Ratings) Oct. 5, 2016--S&P Global Ratings said today that China's proposed reduction of benchmark solar and wind tariffs for new capacities reflects the government's intention to normalize investment returns on renewable energy.

The proposal is unlikely to have an immediate rating impact on the country's solar or wind power generators, including China Longyuan Power Group Corp. Ltd. (A-/Stable/--; cnAA/--), the largest renewable energy operator in China, because it will only temper gains from a recent decline in costs. Moreover, given the potential lobbying by industry operators, the final tariffs may be higher than is proposed.

"We believe renewable power generators can earn reasonable returns on new capacities despite the policy adjustment," said S&P Global Ratings credit analyst Vincent Chow. "A potential improvement in capacity utilization through better execution of the guaranteed utilization hour policy could also moderate the negative impact of the tariff cuts. Moreover, we believe the government will maintain reasonable project returns to encourage ongoing renewable energy investment."

The proposed reduction in tariffs follows a decline in investment and financing costs for renewable power generators following an upgrade of technology for renewable energy equipment and favorable funding conditions in



1730213 | 302011238

recent years.

The government is encouraging the determination of tariffs for new capacities, in particular for some new solar projects, through open bidding instead of fixed feed-in-tariff (FiT). This could lead to lower project returns and margin compression, and hints at the tariff regime moving toward unregulated from regulated tariff. However, we expect minimal impact in the near term because only a small share of new projects will be subject to bidding.

We note that a higher proportion of new solar projects are subject to bidding compared with wind projects because of the steeper reduction in costs for such projects. Open bidding may help the government to ensure the tariffs or project returns are reasonable to operators, but not excessive. The cost for solar cell module has declined significantly in 2016. In the recent bidding, the quotation for solar cell model declined to around Chinese renminbi (RMB) 3 per watt versus around RMB4 per watt year ago.

On Sept. 29, 2016, the National Development and Reform Commission (NDRC) announced a drafted version of cuts in solar and wind power FiTs and sought public opinion. Key highlights are: (1) FiT for new onshore wind farms approved from 2018 to be 5%-7% below the level in previous proposal published in December 2015; (2) More clarity on FiTs for offshore wind farms; (3) 23%-31% reduction in FiT for solar farms approved after Jan. 1, 2017, versus those approved in 2016; and (4) Local government to determine the operators and tariffs through open bidding.

"We expect the Chinese government to maintain a generally favorable policy for the development of renewable energy to help achieve its target of increasing the share of non-fossil fuel energy to 15% of total primary energy by 2020, from 11% in 2015," said Mr. Chow. To that end, the government plans to increase the solar/wind installed capacity to 160 gigawatt (GW)/250GW by 2020, from 44GW/130GW in 2015.

However, following the rapid growth of renewable energy in China in recent years, the government is likely to gradually reduce the magnitude of support, and seek more market-based measures to guide the industry development. We believe the ultimate goal of the government is to have the same tariffs for all types of power through a market-driven mechanism by 2020.

The proposed tariff reduction could also reduce the significant deficit in national renewable energy funds and alleviate the fiscal pressure on the government. The long delay in subsidies to operators has adversely affected their operating cash flows.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.