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UPDATE: China Pledges Clean Energy Drive, Pricing Reforms

--China sets higher clean-energy capacity addition targets

--Government plans to boost strategic energy reserves

--Beijing wants to reform refined oil, natural gas, thermal coal markets

--Government plans pilot cap-and-trade plan to control emissions

(Adds historical China energy capacity data, previous year's energy-saving targets, analyst quotes and background throughout.)

By Wayne Ma and Chuin-Wei Yap

BEIJING--China's government Tuesday said it will push ahead growing its clean energy sector this year in line with long-standing efforts to cut dependency on fossil fuels, as well as shore up strategic energy reserves and reform energy prices.

Consolidating a fresh slate of targets previously scattered in its five-year blueprint, the National Development and Reform Commission on Tuesday vowed to add dozens of gigawatts of installed capacity to its hydropower, nuclear, wind and solar sectors, in its annual report to China's legislature, or National People's Congress, which opened Tuesday.

The world's largest energy producer said it plans this year to install 21 gigawatts more of hydropower capacity, an additional 3.24 gigawatts of nuclear power capacity, 10 gigawatts of solar capacity and 18 gigawatts of wind power capacity.

The targets are particularly aggressive for solar and nuclear power compared to last year's actual installed capacity, data from North Square Blue Oak consultancy showed. Last year, China added just 0.66 gigawatts of new nuclear power capacity and 0.97 gigawatts of solar power capacity.

The goals are more modest for hydropower and wind power, but still--if realized--would represent a 10.5% and 17.1% increase respectively from last year's actual added capacity.

China has around 15 nuclear reactors in service, which together have a net capacity of around 11.9 gigawatts.

The blueprint underlines efforts, so far not very successful, to reduce the share held by polluting fossil fuels in the national energy mix.

Conventional thermal energy's proportion of newly-added capacity is likely to fall this year to 44% from 58.6% last year and 65.1% in 2011, the consultancy said.

However, coal is likely to remain the dominant part of the country's energy mix for years ahead--it currently accounts for around 70%. Beijing has also eyed natural gas as a means to cut its dependency on coal.

"China's going to gradually increase clean energy as a proportion of newly added capacity, with solar significantly increasing partly because the State Grid has agreed to exempt the grid connection fee for (some) solar projects," said North Square Blue Oak analyst Miao Tian.

Not all the targets are new. In January, NDRC deputy director Liu Tienan said China plans to more than double installed capacity for solar electricity this year, placing China within striking distance of its goal of reaching 21 gigawatts of capacity by 2015.

Beijing may not benefit as much from renewable energy as the new targets suggest. For wind energy in particular, only 40% of constructed capacity has been actually connected to the grid, which means a sizable inventory of capacity already built but not yet connected, Ms. Tian said.

China Tuesday said it exceeded a key energy saving target, lowering its energy consumption per unit of gross domestic product by 3.6% last year. Beijing set a 3.5% target for cutting its energy intensity for 2012, and plans to reduce this by 3.7% this year, the NDRC said.

It missed a 3.5 target in 2011, achieving a cut of just 2%, partly because severe drought in China's southern regions slashed hydropower output and led to higher output from coal-fired power plants that year.

Moves to trim emissions by reducing coal, gasoline and diesel use or introducing higher fuel standards follow record-high pollution levels in Beijing this winter, which have raised awareness of environmental issues and put pressure on the government to improve air quality.

On Tuesday, the government also promised reforms to domestic refined oil, natural gas and thermal coal pricing systems, to bring them closer into line with world prices, mostly reiterating pledges made at last year's NPC but not carried out.

China's oil refiners and power producers have long complained that a disconnect between the cost of imported fuel and the price at which they are allowed to sell their output causes them massive financial losses, particularly at times of rising global energy prices.

China began pilot reforms of natural gas in two provinces in 2011 to loosen price controls and link them to market prices for imported fuel.

Other plans announced Tuesday included introduction of a pilot cap-and-trade project for emissions.

The government will also accelerate efforts to create national coal and gas strategic reserves, complementing a massive oil stock program.

Last year, the official Xinhua news agency said the government planned to increase its strategic petroleum reserves capacity to more than 500 million barrels by 2020.

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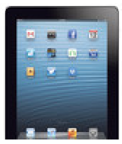

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