

Third-Party Evaluator's Opinion
Power Distribution System Rehabilitation Project (Chongqing)

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Item 1: Relevance

The Power Distribution System Rehabilitation Project (hereinafter referred to as “the project”) will have power-saving effects through the reduction of power loss. This means two things: (1) in the case where there is a shortage of power supply, the project will contribute to the easing of the tight balance of supply and demand of power; and (2) given that the thermal electric power generation is the main force of power supply in China, the amount of coal consumed to produce a certain amount of electric power will be reduced, and at the same time, the amount of contaminants discharged will be reduced.

At the time of project appraisal, the supply and demand of power in the municipality of Chongqing was relatively tight. During the year 1997, electric service had to be interrupted 5,821 times to adjust the demand for power in the urban areas of Chongqing.¹ Under these circumstances, at first, emphasis was apparently placed on the former of the two effects mentioned above. Considering that the Energy Conservation Law was promulgated in China in November 1997, and that the Chongqing region is the principal district stricken by acid rain, which is mainly caused by SO₂, needless to say, the relevance of this project is also amply demonstrated from the perspective of contribution to energy and environmental conservation.

At the time of the ex-post evaluation, the tight supply and demand of power in Chongqing had already been solved, but the problems of resources and environment came to be stressed further in China as whole. As a result, the effect discussed in (2) above came to assume importance on a national policy level. In the 11th Five-Year Plan announced in March 2006, separate chapters are devoted to the establishment of a “resource-saving society” and that of an “environmentally-friendly society”, respectively. In addition, the plan proposes a set of mandatory measures (goals for resources, environment, social security, etc., which should be achieved through, for example, closer supervision by the force of law and distribution of public finance) calling for a 20% improvement in energy efficiency and a 10% reduction in major contaminant emission. In April 2007, a tutorial group for energy saving and emission reduction was formed in the State Council with Prime Minister Wen Jiabao assuming leadership of the group. Thus, energy saving and reduction in greenhouse gas emission form an important part of China's national strategy. It can be said that today the relevance of

¹ Source: Chongqing Evening News, June 14, 2007.

this project has actually increased.

Item 2: Effectiveness

The direct objective of this project is to reduce distribution loss. The project actually reduced distribution loss from 9.01% in 1998 to 7.18% in 2005. Thus, the goal of the project was reached. In addition, the project achieved its planned objective of increasing the effects of energy saving and reducing contaminant emissions. Moreover, the actual cost of the project was only about 75% of the planned cost. The fall in the contract price triggered by the international copper market's price decline is the main reason for the project's success. That being said, however, the management skill of the Municipal Power Company of Chongqing, the direct executing arm of this project, cannot be overlooked. In 1997, Ye Ming, the deputy director of the Power Industry Bureau of Heilongjiang Province, left his post to become the president of Chongqing Power Company. It was President Ye Ming who transformed the latter into the reputable company as it is today by injecting the principle of corporate management into an organization that had up to then been dominated by a bureaucratic mind-set.² The existence of such a competent executing arm played an important role in ensuring the successful implementation of the project.

² Based on a story appearing in Chongqing Evening News, June 14, 2007.