

For discussion
on 16 January 2001

Legislative Council Panel on Economic Services
DIRECTORATE STAFF FOR ELECTRICITY MARKET REVIEW

PURPOSE

This paper seeks Members' endorsement of a proposal to be submitted to the Establishment Subcommittee (ESC) of the Finance Committee for the creation of two directorate posts. The purpose of these two posts is to strengthen the in-house capacity and expertise for the review of the electricity market in Hong Kong, and to help in working out options for the post-2008 regulatory regime for the economic regulation of the electricity supply sector.

PROPOSAL

2. We propose to create a non-civil-service post of Electricity Adviser (EA) at D2/D3 level in the Economic Services Bureau (ESB) and a permanent post of Chief Electrical & Mechanical Engineer (CEME) in the Electrical and Mechanical Services Department (EMSD), both with effect from 1 April 2001.

BACKGROUND AND JUSTIFICATION

3. The Scheme of Control Agreements (SCAs) between Government and the two power companies will expire in 2008. We would like to take early action to devise an appropriate post-2008 regime for the regulation of the electricity supply sector. This is to ensure continued investment in the provision of an adequate and reliable electricity supply and that there must be a smooth transition should there be a new regime. Our plan is to map out the broad directions before 2003.

4. In examining the options for a post-2008 regulatory regime, we need to consider both technical (primarily engineering) and economic regulation issues. The former include reliability, planning and logistics issues for meeting the needs of different market structures, parameters for

power systems under an increased interconnection scenario, and system stability concerns. In considering these issues, the Administration needs to commission consultancy studies on specific issues, discuss with the power companies and to work out mutually acceptable arrangements.

5. On economic regulation, we need to study the electricity market restructuring experience in other places while taking into account local circumstances. We will need to evaluate different market design and implementation arrangements, which may include unbundling generation, transmission, distribution and/or retail facilities. We will need to consider practical and effective ways and means of modifying the market structure, the size and number of players in different market segments, the institutional framework, the market rules, and the economic costs and benefits of different options. To this end, we need to visit and maintain regular liaison with relevant regulatory authorities and other players in electricity markets overseas as well as to examine their market rules and practices. We will also maintain liaison with Mainland authorities on developments across the border. We need to think through the implications for Hong Kong taking into account the characteristics of the current Hong Kong market and its future prospects and potential.

6. In the process of examining the above issues, we need to consult a wide range of stakeholders including this panel, the power companies, advisory committees and the community at large. If changes are to be made to the current arrangements, we need to work out transitional arrangements with the existing power companies. We will also need to put in place the necessary market rules, regulatory and institutional structure, etc.

7. For the above mammoth and complex tasks which involve considering the restructuring of one of the most important economic sectors of Hong Kong, we need a multi-disciplinary team comprising administrators, engineers, economists and accountants. We also need outside support in the form of consultancy studies and a strengthening of in-house experience and expertise.

Existing staffing support in ESB and EMSD

8. At present we have very limited staffing resources for dealing with electricity supply policy and monitoring of the two power companies. In ESB, there is one Administrative Officer Staff Grade C (D2) (designated

as PAS(ES)B), supported by one Senior Administrative Officer (designated as AS(ES)5), overseeing a number of policy areas including electricity supply, and one Assistant Director of Accounting Services (D2) heading a team of three accountants for monitoring the financial affairs of electricity and gas companies, and keeping track of prices of major fuels. In EMSD, there are only one Senior Electrical and Mechanical Engineer (SEME) and two Electrical and Mechanical Engineers (EMEs) overseeing planning issues and monitoring technical performance of the power companies.

9. All these officers are already fully occupied with on-going work which includes handling policy issues arising from the implementation of the Scheme of Control Agreements, following up on issues relating to the Financial Plans of the power companies e.g. reviewing demand forecasts and capacity schedules, reviewing and auditing their financial and technical performance, conducting annual tariff reviews etc. There is therefore no spare capacity for taking on the complex and detailed development work relating to the post-2008 regulatory regime. Besides, considerable expertise and technical skills would be required to carry out the mammoth and complex tasks outlined in paragraphs 4 to 6 above. Such expertise and technical skills are currently not available within ESB and EMSD.

Need for the proposed EA

10. In order to acquire the necessary expertise and technical skills for the complex tasks, we propose to appoint a specialist who has rich experience in electricity market restructuring and a good understanding of the electricity supply industry to serve as an in-house EA for three years. This person will provide expert advice and assist in mapping out the future directions for the post 2008 regime, laying the foundation for future implementation and contributing to policies that affect the future electricity supply infrastructure of Hong Kong. The job description of the proposed EA is at Annex 1.

Annex 1

11. Given that the advice of the EA may significantly affect the business and the future of the two existing utilities, we must ensure no conflict of interest between the EA and the existing shareholders. We will therefore consider candidates from both local and overseas. As the EA is expected to deal with the two existing electricity utilities at a senior level, he should be of sufficient seniority. We therefore propose that the EA be remunerated at the equivalent rank of D2/D3 on the Civil Service

Directorate Pay Scale, depending on the experience and qualification of the successful candidate.

12. We propose to appoint the EA on contract terms for an initial period of three years. We hope that once the electricity market restructuring framework and roadmap are set out, the follow-up implementation work could be carried out by the support team headed by the CEME (see paras. 14-16 below). We will nevertheless need to review the appointment of the EA nearer the time in the light of experience gained, and having regard to actual progress and the then prevailing circumstances.

13. The proposed EA will report to the Deputy Secretary for Economic Services (DS(ES)1) who, among other things, oversee policy issues relating to adequate, safe and reliable electricity supply. He or she will also need to liaise closely with PAS(ES)B as it is expected that there will be a lot of linkages between the present and future if changes are to be made to the present regulatory and market arrangements. Besides, PAS(ES)B will continue to be responsible for providing overall administrative support and maintain an overall view relating to the issues concerned.

Need for the proposed CEME and support posts

14. We also propose to create a permanent CEME post and other support staff in EMSD to provide technical support to the proposed EA and the bureau, and continuity in taking forward the post-2008 regime. The job description of the proposed CEME post is at Annex 2. In view of the significance of the task and the level of responsibilities involved, a permanent CEME post at D1 rank is needed.

Annex 2

The support team

15. We further propose to set up a support team of two SEMEs, two EMEs, one Senior Economist, and secretarial and clerical support to provide support to the EA and the CEME. This will also enable attachments to be made to e.g. regulatory authorities and other players overseas to acquire first hand regulatory and other experience in different restructured markets. They will provide essential technical support to examine the feasibility of options under consideration.

16. More specifically, the support team is to support the EA and the CEME in -

- (a) providing professional advice and developing proposals for the formulation of electricity supply policies and strategies;
- (b) formulating options regarding the institutional set up for the post-2008 electricity supply market structure;
- (c) liaising with relevant Government departments, utilities and relevant parties;
- (d) formulating transition plans where appropriate for restructuring the electricity supply sector and attending meetings with the power companies on transitional arrangements;
- (e) managing related consultancy studies; and
- (f) liaising with South China regulatory agencies and electricity supply organisations on issues related to the development of South China electricity supply market and supply reliability in the region.

17. The proposed CEME post and the support team will be created as part of EMSD's establishment but will be attached to ESB to form part of the multi-disciplinary team after a period of familiarization in EMSD. The CEME and his team will be responsible to PAS(ES)B but will provide support to the EA during the latter's period of appointment. The existing and proposed organisation charts of ESB before and after the appointment of the EA and the creation of the proposed CEME and other support posts are at Annexes 3 and 4 respectively.

Annexes 3 & 4

Restricted time frame

18. Although the current SCAs will not expire until 2008, we need to work out the post-2008 regime early. Our plan is to map out the broad directions before 2003 to allow adequate time to take forward any proposed change. We propose to create the EA and CEME posts on 1 April 2001 although appointment of the EA is expected in the second quarter of 2001.

Alternatives

19. Since the whole exercise would involve major policy considerations and regular discussion with the power companies and other stakeholders throughout the process, we do not consider it a viable alternative to commission a consultancy firm to undertake the tasks. Besides, we also need to build up expertise and a core group for regulating the electricity supply sector for the future. Therefore, there is no alternative to the current proposal.

20. If the proposal is not supported, Government would not have the expertise and the necessary support to map out the post-2008 regime early as planned in 2003.

THE WAY FORWARD

21. We intend to submit the proposal for creation of the two directorate posts mentioned above to the meeting of the ESC on 21 February 2001.

Economic Services Bureau
January 2001

Proposed Job Description of Electricity Adviser

Major Duties and Responsibilities

To report to the Deputy Secretary for Economic Services (1) on the following main duties:

- (a) To provide expert advice and proposals to both ESB and EMSD for the formulation of electricity supply policies and market restructuring strategies.
- (b) To provide expert advice on the following areas:
 - (i) appropriate regulatory regime;
 - (ii) appropriate market structure and ways to achieve it;
 - (iii) rules and arrangements required for different market and regulatory options;
 - (iv) detailed plan and time frame for different market and regulatory options;
 - (v) mechanism to ensure reliability and security of electricity supply under different market options; and
 - (vi) transitional arrangement necessary for a smooth transition where changes are to be made to the current regulatory arrangement.
- (c) To work out detailed plans and options for the post-2008 regime for the electricity supply sector.
- (d) To attend meetings of LegCo, EnAC and other groups to explain market options and government's plans for the post-2008 regime.
- (e) To attend meetings with power companies and relevant parties on issues relating to any proposal for change to the existing market and regulatory regime.
- (f) To train and transfer market restructuring knowledge and expertise to permanent in-house staff.

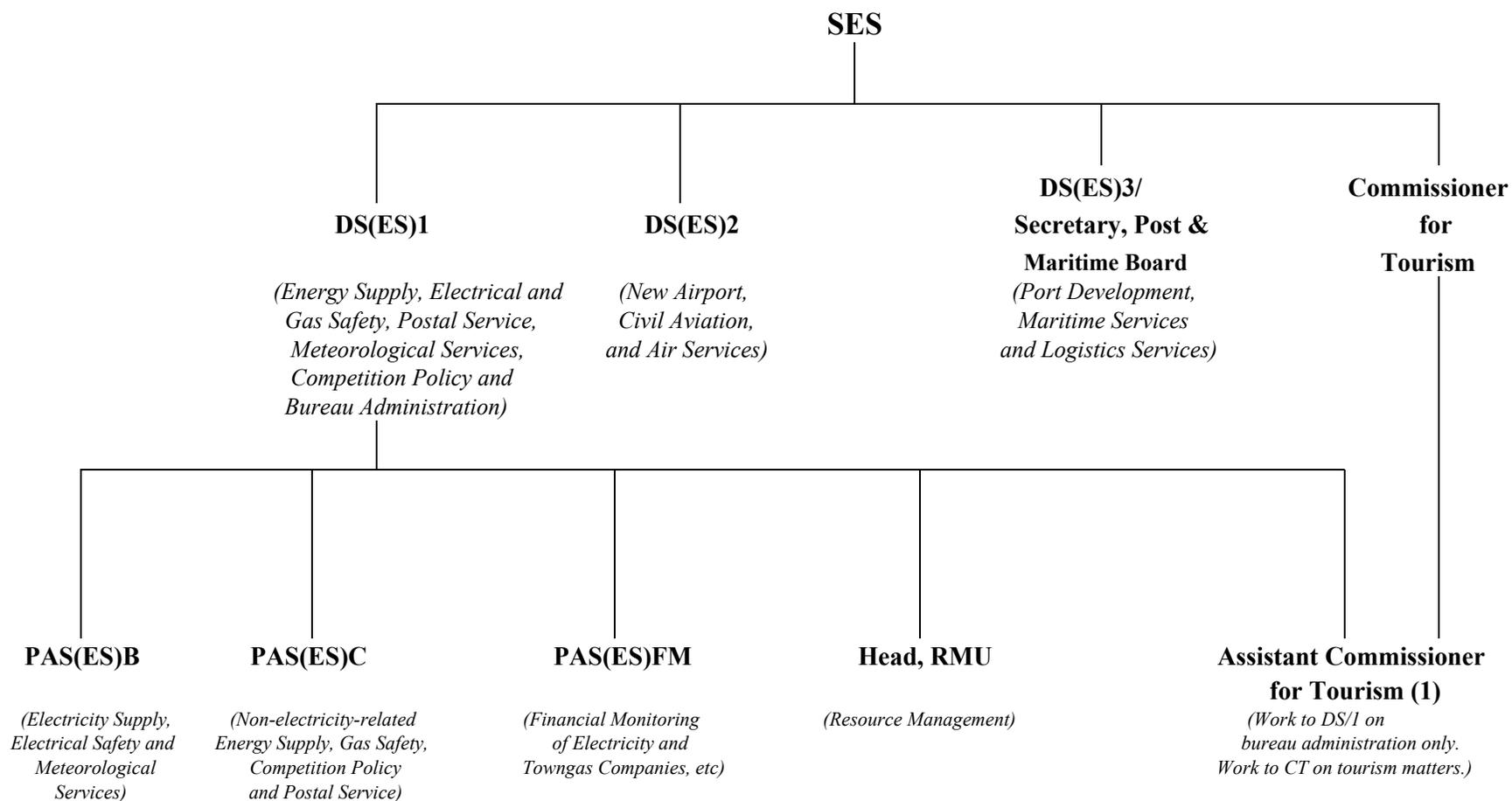
**Proposed Job Description of
Chief Electrical & Mechanical Engineer (D1)**

Major Duties and Responsibilities

To report to the Principal Assistant Secretary for Economic Services (B) on the following main duties:

- (a) To direct the operation and management of the division for review of the electricity supply sector.
- (b) To work with the Electricity Adviser to provide professional advice and proposals for the formulation of policies and strategies relating to the post-2008 regime.
- (c) To plan the necessary institutional set up for, and implementation of, the post-2008 regime taking into account the advice of the Electricity Adviser.
- (d) To co-ordinate with relevant Government departments, utilities and relevant parties for the formulation of the post-2008 regime.
- (e) To attend meetings of LegCo, EnAC and other groups to explain government's objectives and proposals.
- (f) To deputize for the Electricity Adviser in chairing working group meetings with the power companies and relevant parties in making arrangement for the post 2008 regime.
- (g) To attend meetings with existing power companies on transitional arrangements if necessary.
- (h) To manage consultancy studies on relevant issues.
- (i) To assist in liaising and co-ordinating with South China regulatory agencies and electricity supply organisations on issues related to the development of South China electricity supply market and supply reliability in the region.

**Existing Organization Chart
of Economic Services Bureau**



Proposed Organization Chart of Economic Services Bureau

