

**Progress Report on Actions Taken in Respect of the
Motion on “Creating a sustainable and open electricity market”
Moved by Hon Audrey EU as amended by Hon Fred LI and Hon Starry LEE
at the Legislative Council meeting of 18 January 2012**

At the Legislative Council (LegCo) Meeting of 18 January 2012, the motion on “Creating a sustainable and open electricity market” was passed. The follow-up actions taken in respect of the recommendations put forward by Members in the motion are summarized below :

Content of the Motion	Feedback and Follow-up Actions
Establish an energy management authority to explore Hong Kong’s long-term energy demand, formulate and execute an energy policy, as well as monitor power companies, gas companies, liquefied petroleum gas companies and fuel supply companies	The Environment Bureau and Electrical & Mechanical Services Department (EMSD) are currently responsible for the monitoring of the power companies, gas company, etc. The present arrangement works well.
Review the permitted returns of the two power companies	According to the Scheme of Control Agreements (SCAs), both the Government and the two power companies have the right to request modification of any part of the SCAs in 2013. Any changes are to be mutually agreed by both parties. The Government will prepare for the mid-term review having regard to the views of Members and various sectors of the community. The result will be reported to the LegCo Economic Development Panel after the review.
Immediately activate the mechanism for interim reviews, and make public the relevant information and accounts, so as to facilitate public participation	
Study the computation mode based on linking permitted returns to fixed assets	
Raise the transparency of the processes for the formulation of SCAs and tariff adjustments, so as to facilitate public monitoring and ensure fair and reasonable tariff adjustment rates	At the meeting of Panel on Economic Development on 7 February 2012, Members discussed, with closed-door and relevant confidentiality arrangements in place, the supplementary information on the Five-year Development Plan and 2012 Tariff Review submitted by the two power companies in the form of confidential documents. The two power companies also provided

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Consult the Legislative Council first when approving the annual tariff adjustments and before revising the respective five-year Development Plans of the two power companies in the future	detailed explanation to questions raised by Members. In light of Members' views, the two power companies subsequently made public those parts of the aforesaid documents not involving confidential information, which further enhance the transparency of the tariff adjustments.
Launch a review of the two power companies' development plans in accordance with the provisions of SCAs, increase the transparency of the development plans, and require the two power companies to revise their investment plans, revalue their assets, compress costs and rationalize their accounts	The Government will continue to listen to the views of Members and the public in formulating the Five Year Development Plan and tariff adjustments, to ensure that the electricity supply in Hong Kong can achieve the policy objective of striking a balance amongst reliability, safety, environmental protection and affordability. We will report to LegCo at an appropriate juncture.
Require the two power companies to exhaust all room for tariff reduction, so as to lower the rates of tariff increase this year to the lowest levels	On 30 December 2011, CLP revised the 2012 net tariff increase from 9.2% announced in mid December to 4.9% by reducing operating costs, taking out premature capital investment for increasing generation capacity, reducing the projected Tariff Stabilization Fund balance and providing a one-off Rent and Rates Rebate. HEC reduced the tariff increase to 6.3% on the same day after considering the views of Executive Council on 13 December 2011. It further announced on 16 December improvement to its progressive tariff structure, resulting in an actual net tariff increase for 90% of HEC's domestic consumers by 4.97% or less, lower than inflation.
Expediently materialize the interconnection between the networks of the two power companies and segregation of the generation sector from the network sector, and introduce third parties to bid for the supply of electricity grids	The SCAs signed between the Government and the two power companies will expire by 2018. According to SCAs, before implementing any changes to the electricity supply regulatory framework, the Government will take into account all relevant factors including the availability of new reliable and environmentally sound supply sources, safety, reliability and efficiency, and compatibility with the environmental and economic needs of the community. The Government will discuss with the two power companies market readiness, potential future changes to the electricity supply regulatory framework and transition issues before 2016, and carry
Adopt all measures to create a low-carbon electricity market which promotes sustainable development and operates with	

Content of the Motion	Feedback and Follow-up Actions
greater competition, openness and fairness, so as to break new grounds in the electricity market	out studies on the relevant issues.
Encourage the development of distributed renewable energy power generation facilities and networks, and provide technical support and concessions for connection to electricity grids	We have been promoting the development of distributed renewable energy power generation facilities and networks in Hong Kong. To facilitate the installation of renewable energy facilities, the Buildings Department implemented the Minor Works Control System on 31 December 2010 to simplify the procedures for carrying out minor building works, including the approval procedures of minor works relating to renewable energy facilities. On grid connection, EMSD has promulgated technical guidelines on grid connection of renewable energy power systems. The two power companies have also provided standardised arrangements for back-up power supply for customers with embedded Renewable Energy Systems in Hong Kong. Grid connection arrangement could be made between this kind of grid users and the power companies on reasonable terms.

Environment Bureau
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