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15 January 2016

By E-mail

Ms Connie Szeto
Clerk to the Establishment Subcommittee
Legislative Council Complex,
1 Legislative Council Road,
Central, Hong Kong

Dear Ms Szeto,

**Establishment Committee
Follow-up to meeting on 6 January 2016**

At the meeting of the Legislative Council Establishment Subcommittee on 6 January 2016, Members requested supplementary information in relation to the proposed retention of two supernumerary posts to take forward the outcome of the public consultation on the future development of the electricity market (EC(2015-16)11) as set out in your letter of 7 January 2016. The information is provided below for Members' reference.

(a) and (b) Manpower deployment for previous negotiations

The current Scheme of Control Agreements (SCAs) were signed on 7 January 2008. They took effect from 1 October 2008 and 1 January 2009 and would expire in end 2018. Policy responsibilities were transferred to the newly set up Environment Bureau (ENB) with effect from 1 July 2007. There were two teams overseeing energy-related matters, one was headed by an officer at the rank of Administrative Officer Staff Grade C (AOSGC) and the other one was

headed by a D2 officer on attachment to ENB and both were transferred from the Economic Development and Labour Bureau. The former team continued to lead negotiation with the power companies on the SCAs with input from professional accounting and engineering teams in the Bureau and the relevant departments. The attachment arrangement for the latter post finished towards the end of the negotiation period.

The term of the preceding SCAs was 15 years, which expired in end 2008. At the time of their negotiation in the early 1990s, the energy portfolio was under the then Economic Services Branch while the then Planning, Environment and Lands Branch was responsible for environment policies relating to energy matters. In the Economic Services Branch, negotiation on SCAs was mainly handled by a team headed by a Treasury Grade directorate post at D2 with policy input from a team on energy and other policy issues headed by an AOSGC officer. The SCAs were largely the same as their preceding ones with limited changes, please see the paragraphs below for further details.

(c) Major policy objectives of negotiations

Upon taking up the policy responsibilities for energy portfolio, the Environment Bureau steered the negotiation on SCAs with a view to ensuring that reliable, safe and efficient electricity supply would continue to be delivered to consumers at reasonable prices; addressing comments and suggestions received in respect of the regulatory regime; and having regard to environmental concerns. To this end, a number of key changes were introduced, including shortening of the duration of the SCAs from 15 years to 10 years; reducing the permitted Rate of Return from 13.5%-15% to 9.99%; and incentive schemes were introduced for improvements in performance in energy efficiency, operational efficiency, supply reliability, customer services and use of renewable energy. Mechanisms on tariff approval, treatment of excess generating capacity and the Tariff Stabilisation Fund have also been tightened.

In the 1990s, the negotiation of the preceding SCAs focused on ensuring that consumers got a reliable and efficient service at a reasonable price; shareholders of the power companies got a reasonable return on their investment so as to encourage them to continue to make the necessary investments; the power companies could compete successfully in the financial markets when funds were needed; and these objectives were achieved without direct subsidy from public funds. When compared with their preceding SCAs, the previous SCAs (which expired in end 2008) retained the major terms such as the permitted Rate

of Return, though changes to enhance the scope of the Financing and Auditing Reviews, including introduction of technical audit, as well as improvement to some accounting arrangements were introduced.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Noel PUN', with a horizontal line extending to the right.

(Noel PUN)
for Secretary for the Environment

c.c. Secretary for Financial Services and the Treasury

