For information
on 10 December 2002

LEGISLATIVE COUNCIL PANEL ON ECONOMIC SERVICES

INTERIM REVIEW OF THE SCHEME OF CONTROL AGREEMENTS IN 2003

INTRODUCTION

At the request of Members, this paper outlines for information the arrangement for the interim review of the Scheme of Control (SOC) Agreements by the Government with the two power companies in 2003.

BACKGROUND

2. The SOC Agreements have the dual objective of ensuring that consumers enjoy a reliable and efficient supply of electricity at a reasonable price and that the electricity supply companies receive a reasonable return on their investment to encourage continued investment as is required to ensure adequate supply of electricity to meet demand. The SOC Agreements between the Government and the two power companies therefore set out the obligations of the power companies, the returns for shareholders and the arrangements by which Government monitors the power companies' financial affairs.

3. The current SOC Agreements have a term of fifteen years and will expire in 2008. They provide for two interim reviews of one-year duration each, as follows :

	CLP	HEC
1st interim review	1.10.1997 - 30.9.1998	1.1.1998 - 31.12.1998
2nd interim review	1.1.2003 - 31.12.2003	1.1.2003 - 31.12.2003

During these reviews, each party to the SOC Agreements may request modifications to the SOC Agreements, the implementation of which will be subject to the mutual agreement of both parties.

THE 1997/98 REVIEW

4. The first Interim Review of the current SOC Agreements was conducted in 1997/98. Major modifications to the SOC Agreements arising from the 1997/98 interim review are set out in the following paragraphs.

A. Lower the rate of return on asset financed by customers' deposit

5. Before the 1997/98 interim review, the power companies obtained a permitted return of 13.5% on fixed assets financed by funds from customers' deposits.

6. Both power companies agreed that fixed assets financed by customers' deposits collected by them from then onwards would attract a lower rate of return. This lower rate of return will be the permitted rate of return less the interest, up to a rate of 8%, to be paid by the companies to their customers on such deposits. The interest so paid will be based on the Hong Kong savings deposit interest rate.

B. Exclude excess generation capacity from attracting permitted returns

7. Both power companies agreed to put in place a mechanism for determining the excess generation capacity, and for a proportion of the expenditure on machinery and equipment that gave rise to the excess capacity to be excluded from attracting a return for the power companies.

C. Recognise the obligation to implement Demand Side Management (DSM)

8. Both power companies agreed to include DSM as one of their obligations under the SOC Agreements : a recognition by the power companies of their role in promoting energy efficiency and conservation and optimising the deployment of resources for electricity supply facilities.

D. Update the periods of useful life and depreciation of fixed assets

9. Both power companies agreed to extend the useful life and depreciation periods of certain fixed assets, in the light of the improved technological quality and maintenance standards. The extension of the replacement cycle of the plant and facilities will bring economic benefits to consumers as the frequency of plant and facilities replacement will be reduced.

THE 2003 REVIEW

10. The next and final review of the existing SOC Agreements will be conducted in 2003. In this connection, we will take into consideration issues raised over time by Members of the Legislative Council and/or the community at large. These will include matters relating to the financial, technical, environmental and administrative aspects of the SOC Agreements.

MEMBERS' ADVICE

11. Members' views on the 2003 Interim Review are welcomed.

Economic Development Branch
Economic Development and Labour Bureau
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