

For discussion on
28 January 2013

**Legislative Council
Panel on Economic Development**

**2013 Policy Address
Policy Initiatives of the Environment Bureau: Energy**

Introduction

This paper highlights key initiatives planned for 2013 for the energy portfolio.

Electricity Market and Fuel Mix

2. In developing the energy policy in Hong Kong, we have been guided by four principles, namely safety, reliability, affordability and environmental protection. In 2013, the Government will undertake or commence preparation for the following that will affect the operation and long-term development of the electricity market in Hong Kong. These include-

- (a) mid-term review of the Scheme of Control Agreements (SCAs);
- (b) fuel mix policy review;
- (c) 2014-2018 Development Plans for the two power companies; and
- (d) Post-2018 local electricity market review.

SCA mid-term review

3. Signed in 2008, the current SCAs with the two power companies will expire in 2018, with an option exercisable by the Government to extend the agreements for five more years until 2023. The SCAs stipulate that the two power companies and the Government shall have the right during 2013 to request modification of any part of the current SCAs, and mutual agreement is needed before implementing any proposed modification.

4. We have already convened two engagement sessions with stakeholders in end October last year to solicit their views on the mid-term review and other energy-related matters, and consulted the Energy Advisory Committee and this Panel in last November.

Fuel mix policy review

5. Electricity generation accounts for two-thirds of the total greenhouse gas emission in Hong Kong and is also a major source of air pollution. To effectively combat climate change and improve our air quality, apart from actively promoting energy efficiency on the demand side, we also proposed before to improve our fuel mix by substantially reducing the reliance on coal to less than 10% and increasing the share of natural gas and renewable energy to about 40% and 3-4% respectively in 2020, with the remaining balance of about 50% to be met with more imported nuclear energy from the Mainland. Following the Fukushima incident, various countries have been reviewing the safe use of nuclear power. We will further review our fuel mix, taking into account the development in the international arena and views of the local community, while striving to strike a balance among the four competing energy policy objectives of safety, reliability, affordability and environmental protection.

Development Plans for power companies

6. The present approved Development Plans (DPs) of the two power companies covered the 5-year period ending in 2013. In accordance with the SCAs, the power companies will submit in 2013 their 2014-18 DPs relating to the provision and future expansion of their electricity supply system for the review and approval of the Government. In the DP Review, the Government will examine various components of the submitted DPs, including capital expenditures, tariff impact, environmental implications, electricity demand projection, generation and transmission and distribution systems development proposals, fuel supply proposals, etc.

Post-2018 local electricity market review

7. As stipulated in the current SCAs due to expire in 2018, before implementing any changes to the regulatory regime, 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 power companies market readiness, potential future changes to the electricity supply regulatory framework and transition issue before 2016.

8. We will commence preparatory work for the electricity market review in 2013, including studying and analysing possible models for market liberalization and changes to the regulatory framework, such as segregation of electricity generation from the power grids and strengthening interconnection between the power grids. The mid-term review in 2013 would provide a useful platform for us to listen to different views of the community, and help our work in respect of long-term planning of the electricity market.

Engagement with stakeholders

9. In the light of the profound impact of the above initiatives, we will be engaging various stakeholders, including experts, academics, industry and business sectors, and non-governmental organizations to solicit their views. We will also report to Members the progress and outcome of the above initiatives as appropriate at suitable junctures.

Environment Bureau
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