

For discussion on
27 January 2014

**Legislative Council
Panel on Economic Development**

**2014 Policy Address
Policy Initiatives of the Environment Bureau: Energy**

Introduction

This paper highlights key initiatives planned for 2014 for the energy portfolio.

New initiatives

2. In developing the energy policy in Hong Kong, we have been guided by four principles, namely safety, reliability, affordability and environmental protection. In 2014, the Government will launch a public consultation on the future fuel mix for power generation in Hong Kong, and start the review on the future regulatory framework for the electricity market. These two reviews will have a significant impact on the operation and long-term development of the electricity market in Hong Kong.

Review on future fuel mix for power generation

3. Electricity generation accounts for two-thirds of the total greenhouse gas emission in Hong Kong and is also a major source of air pollution. At present, coal accounts for about 54% of Hong Kong's fuel mix for electricity generation, natural gas 23% and nuclear energy imported from the Mainland 23%. In order to reduce carbon emissions and to improve air quality, the Government proposed in 2010 to improve our fuel mix for power generation in 2020 by substantially reducing the reliance on fossil fuels, which are highly carbon-emitting, and increasing the share of non-fossil, clean and low-carbon

fuels, including importing more nuclear energy.

4. Following the Fukushima incident, we have reviewed further the above proposal, taking into account latest developments. As the existing coal-fired generating units in Hong Kong will start to retire in the coming few years, and new electricity supply infrastructure requires long-term planning, we consider it necessary to review the future fuel mix for power generation in a timely manner, in order to meet the future electricity demand of Hong Kong.

5. Each fuel source has its own merits and demerits. In reviewing the overall fuel mix, we will strive to strike a balance among the four energy policy objectives of safety, reliability, affordability and environmental protection. We are working out the details of the public consultation, which we plan to launch in early 2014.

Review on future regulatory framework for the electricity market

6. As stipulated in the current Scheme of Control Agreements (SCAs) signed with the two local power companies which are 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.

7. Meanwhile, in accordance with the relevant provisions of the SCAs, the Government completed a mid-term review of the SCAs with the two power companies in 2013, the outcome of which was reported to this Panel and the public in November 2013. During the course of the review, we received comments on how the future electricity market should be regulated and how the SCAs regime should be modified if it remains to be the future regulatory tool. We will take into account these comments and views in reviewing the future regulatory framework. The public views to be collected during the impending public consultation on fuel mix mentioned above would also give us important

pointers in this respect.

8. With a view to exploring the feasibility of introducing more competition to the electricity market to bring benefits to electricity users, we will commence the review of the regulatory framework for the post-2018 electricity market. The review will have a profound impact on the way that electricity will be provided and how this important public utility will be regulated. It will cover a wide range of policy, economic, legal, technical and financial issues that require thorough examination, and entail substantial work, including studies on possible regulatory options that may be suitable for Hong Kong, segregation of electricity generation from the power grid and enhancing the interconnection of the two power grids, etc..

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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