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30 January 2014

By E-mail

Mr Derek Lo

Clerk to Panel on Economic Development  
Legislative Council Complex,  
1 Legislative Council Road,  
Central, Hong Kong

Dear Mr Lo,

**Panel on Economic Development  
Follow up to the Meeting on 25 November 2013**

**Scheme of Control Agreements (SCAs) with the Power Companies  
2013 SCA Mid-term Review**

At the meeting of the Legislative Council Panel on Economic Development on 25 November 2013 where the outcome of the mid-term review of the SCAs was discussed, the Administration was asked to provide further information on whether the rate of tariff adjustment could be capped at the rate of change of the Composite Consumer Price Index (CCPI), and whether this approach would be included in the new SCAs to be made in 2018. Our response is provided below.

Under the current arrangement stipulated in the SCAs, the two power companies have to submit to the Government their Development Plans, which cover a period of at least 5 successive years after the year of submission of the Plans or the remaining term of the SCAs, whichever is shorter. Among other things, the Development Plans set out the projected Basic Tariff Rate for each of the years covered by the Plans, for the Executive Council's approval. In October each year, the Government and each of the two power companies will jointly conduct a Tariff Review. If following the Tariff Review, any

subsequent proposed adjustment of the Basic Tariff Rate for a year covered by an approved Development Plan does not exceed 5% of the projected Basic Tariff Rate most recently approved for that year by the Executive Council, no approval of the Executive Council is required for the adjustment. However, if a proposed adjustment of the Basic Tariff Rate for a year covered by an approved Development Plan exceeds 5%, approval of the Executive Council is required whether or not a new Development Plan is involved.

During the 2013 mid-term review of the SCAs, we proposed to the two power companies that prior approval from the Executive Council be obtained if the proposed increase in average Net Tariff was to exceed CCPI, irrespective of whether the proposed Basic Tariff would stay within 5% or not of the Basic Tariff approved by the Executive Council in the context of the Development Plan review. However, the two power companies did not agree to the proposal. They considered that the current arrangement had already allowed the Government to exercise effective scrutiny over tariff adjustments. They also considered it not justified to link tariff adjustments to local CCPI as tariff was affected by fuel costs and other costs subject to fluctuations in international markets.

The Government will commence later this year a review of the future regulatory framework for the electricity market after expiry of the current SCAs in 2018. In proceeding with the review, we will take into account the views and comments received during the mid-term review.

Yours sincerely,



(Neve Leung)

for Secretary for the Environment