

For discussion on
2 February 2015

**Legislative Council
Panel on Economic Development**

**2015 Policy Address
Policy Initiative of the Environment Bureau: Energy**

Introduction

This paper informs Members of the major initiative to be undertaken by the Environment Bureau in 2015 under the energy portfolio.

New initiative

2. In formulating the energy policy for Hong Kong, the Government has been upholding the four policy objectives of safety, reliability, affordability and environmental performance. The current Scheme of Control Agreements (SCAs) signed between the Government and the two power companies¹ will expire in 2018. The Government is conducting a review of the future development of the electricity market upon the expiry of the SCAs and the regulatory framework, and plans to consult the public in the first half of 2015.

Review of the future development of the electricity market and its regulatory framework

3. Power supply is an essential infrastructure underpinning the social and economic developments of Hong Kong. The Government has been regulating the economic aspect of electricity supply mainly through the SCAs signed between the Government and the two power companies. The SCAs respectively set out the returns in respect of electricity-related²

¹ The two power companies are CLP Power Hong Kong Limited and Castle Peak Power Company Limited, as well as the Hongkong Electric Company Limited and HK Electric Investments Limited.

² Activities that are directly or indirectly appertaining to the generation, transmission, distribution, sale of electricity, energy efficiency and conservation, or emissions reduction are regarded as “electricity-related” for the purposes of the SCAs and this paper.

operations for shareholders of the power companies, and the arrangements by which the Government monitors their financial affairs in so far as they are electricity-related. The current SCAs run for a term of ten years and will expire in 2018, with an option exercisable by the Government to extend the term for five years until 2023. The Government will discuss with the power companies relevant issues before 1 January 2016 before implementing any changes to the electricity supply regulatory framework after 2018.

4. The Environment Bureau is now reviewing the long term development of the electricity market and its regulatory framework. In conducting the review, we will ensure that electricity supply will meet the energy policy objectives, and pay due regard to the goal to introduce competition to the electricity market. We will consider the views received during the earlier public consultation on future fuel mix for electricity generation, as well as those from various sectors received during earlier reviews such as the tariff reviews and the 2013 Mid-term Review of the SCAs. We plan to consult the public on the review in the next few months.

Public consultation on the future fuel mix for electricity generation

5. The future fuel mix for electricity generation is closely intertwined with the development of the electricity market post 2018. The Government conducted a 3-month public consultation on this important subject during March and June 2014. We proposed two fuel mix options for public consultation; the first one was to purchase electricity from the Mainland power grid, and the second one was to use more natural gas for local generation. Both options would be able to meet the future electricity demand of Hong Kong, and meet the environmental targets set for 2020, viz. to reduce our carbon intensity by 50%-60% when compared to 2005; and to reduce sulphur dioxide emissions by 35%-75%, nitrogen oxides by 20%-30% and respirable suspended particulates by 15%-40% when compared to 2010.

6. We have received more than 86 000 submissions. We will take into account the views received in conducting the review of the future development of the electricity market, and announce the outcome of the fuel mix public consultation and the way forward when we consult the public on the future development of the electricity market and the regulatory framework.

Stakeholders engagement

7. As the development of the electricity market has a profound impact on various sectors, we will solicit views from different stakeholders in conducting the review.

Environment Bureau
January 2015