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12 June 2015

By E-mail

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

Dear Ms Yau,

**Panel on Economic Development  
Follow-up to Meeting on 27 May 2015**

**Public Consultation on the  
Future Development of the Electricity Market**

At the meeting of the Legislative Council Panel on Economic Development on 27 May 2015 where the public consultation on the future development of the electricity market was discussed, Members asked for some information regarding introduction of competition to the electricity market and overseas experiences in market liberalisation. It is set out below.

In conducting the review of the future development of the electricity market, we have looked into the experiences of Australia, Singapore, The United Kingdom and the United States in market liberalisation. A summary of our observations is at **Annex**.

We have observed that market liberalisation in these countries delivered mixed outcomes when evaluated against our energy policy objectives. As it was usually pursued together with other policy goals such as privatisation of state assets or tightened environmental emission requirements, it could be misleading to single out or isolate the effect brought about by market liberalisation. Another key observation is that market liberalisation is a long, complex and evolving process. We should not expect that market liberalisation would naturally lead to a reduction in tariff as a matter of course.

There is also no conclusive evidence to suggest that market liberalisation will help improve the reliability, safety or environmental performance of electricity supply. What is evident in the overseas examples, however, is that introducing competition enabled consumers to have more choices.

Having regard to the above, we consider that we should continue to pursue our goal to introduce competition to the electricity market and have examined our readiness to do so after the current SCAs expire in 2018. A key determining factor is the availability of stable and reliable sources of new supply. In this regard, the Government launched a public consultation on the future fuel mix for electricity generation in March 2014 and promulgated two options, one of which was to import electricity from the Mainland. However, most of the respondents expressed reservation about doing so at this stage. In the local context, it is unlikely that there would be a new, sizable electricity supplier because of land constraints and the potential environmental impact of new generating units to the nearby residents.

While there will not be a substantial new source of supply either from the Mainland or locally in the near term, we consider it necessary to undertake the necessary preparatory work to pave the way for introducing potential new suppliers. We have therefore proposed in the consultation document that we would discuss and jointly conduct a study with the power companies on the detailed arrangements to enable access to the power grids by new players. We also plan to commission a study to look into the detailed arrangements for strengthening the interconnection between the power grids of the Mainland and Hong Kong as well as that between the existing grids in Hong Kong. We will also pursue with the power companies to publish their segregated cost data pertaining to their generation, and transmission and distribution systems, in order to promote transparency and to pave the way for introducing new players.

Yours sincerely,



( Ellen CHAN )

for Secretary for the Environment

### Overseas Experience in Market Liberalisation

Country/Regime	Observations
Australia	<ul style="list-style-type: none"> <li>- Tariff dropped in the 1990's as a result of efficiency gains from market reform and privatisation, but retail prices increased significantly starting from year 2007/08 due to escalating network cost and introduction of new environmental policies.</li> <li>- Reform process did not bring about any negative impact on supply reliability.</li> <li>- Retail competition is fairly intense with relatively high consumer switching rates, where small private retailers, mostly new entrants, obtaining market share.</li> <li>- Higher level of competition has not led to increased customer satisfaction and complaints are increasing.</li> <li>- Rebundling between generation and retail activities took place recently.</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>- Competition at the generation level brought about a change in the use of cheaper fuel type and has helped exert downward pressure on wholesale electricity prices.</li> <li>- Reform process did not bring about any negative impact on supply reliability, which has stayed at a very high level.</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>- Retail electricity price index fell in real terms by some 23% from 1996 to 2003. Subsequently, annual growth rate of wholesale price is 13% between 2003 and 2011.</li> <li>- While standards were set to ensure supply quality and the average unplanned interruption improved by 25% between 2002 and 2010, the reserve level subsequently dropped and some forecast that the capacity margin may drop to around 2% in 2015-16, causing concern over the adequacy of supply in the future.</li> </ul>

<b>Country/Regime</b>	<b>Observations</b>
	<ul style="list-style-type: none"> <li>- Over 60% of consumers never switched supplier and less than 25% switched more than once.</li> <li>- Consumer complaints have increased in recent years.</li> </ul>
United States	<ul style="list-style-type: none"> <li>- In most of the states where competition was introduced, the tariffs were higher, more volatile, and rose faster than those with regulated markets.</li> <li>- In Texas, where the market was in a more advanced stage of liberalisation than other states, wholesale prices exhibited no downward trend while the retail prices for residential consumers rose in the initial period after competition was introduced to the retail market.</li> <li>- There was an energy crisis in California in 2000/2001 after market liberalisation caused by a host of factors, e.g. strong demand for power, tight supply, possible market manipulation, etc.</li> <li>- In Texas, some 60% of residential and 70% of non-residential consumers had switched suppliers by 2014.</li> </ul>