

27 May 2015

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

E-mail: panel_edev@legco.gov.hk

Dear Sirs,

Public Consultation on the Future Development of the Electricity Market

In response to the consultation document issued by the Environment Bureau on 31 March 2015, I would like to provide my personal views on the following issues for the consideration of the Panel:

1. The Scheme of Control Agreements (SCAs)

Based on the information provided in the consultation document, it appears that the existing regulatory framework conducted through SCAs has established an effective working relationship between the Government and the two power companies to achieve the energy policy objectives set by the Government through supplying safe and reliable electricity at an affordable price and, to a considerable extent, in an environmental manner. I do consider that the regulatory framework of this nature is conducive to the stable development of the electricity market in Hong Kong. Therefore the Government must act with clear objectives in mind in its decision to make any changes in the existing regulatory framework as those changes would have a far-reaching impact on Hong Kong's long term development.

2. Reliability of Electricity Supply

I have been given to understand that the power companies in Hong Kong have been providing electricity supply with reliability exceeding 99.999%. I strongly believe that reliable power supply is vital to not only the business operations, but also to our daily lives/ One of the main reasons is that Hong Kong is a vertical city with over half of people living and/or working in high-rise buildings. Further, we have to rely heavily those means of transport which are powered by electricity. It is noted that we have experienced less than 3 minutes on average unplanned power interruptions every year; and there has not been any major blackout for 30 years. I consider we should try our very best to maintain this level of reliability and should be careful to avoid the implementation of any measures in our regulatory framework which will likely result in the degradation of the existing level reliability of our electricity supply.

3. Permitted Rate of Return and Tariffs

It appears to me that the Government has an intention to cut the Permitted Rate of Return to the power companies further in the next Scheme of Control Agreements with a view to lowering the effective tariffs. As a layman, I am not able to give any comments on whether the existing Permitted Rate of Return is fair and reasonable. However I think it is worth noting that power suppliers in Hong Kong are all private owned and power industry involves heavy capital investment in all infrastructures and the payback periods of such facilities usually last for decades long. Further, the two power companies have a large number of small investors/share holders who rely on the dividend payout from the companies as regular income to maintain their living. I find it a fair say for the power companies as well as their investors to request for a reasonable return, like all business investors do. Thus the Government should provide unequivocal justifications to the public if it considers further cut down in the Permitted Rate of Return is necessary.

I have been given to understand that Hong Kong has been provided with electricity supply at competitive as well as affordable tariffs when comparing with many other key metropolitan cities in the world. I also understand that the Government has been implementing an effective and stringent regulatory framework to monitor the power companies' operating and financial performance to ensure the tariffs set by power companies are fair and reasonable. I consider that these regulatory initiatives have served the city well for over 50 years and should be maintained with continuous enhancements. I am not so sure that cutting down the power companies' Permitted Rate of Return will necessarily drive down the tariffs to the electricity users.

4. Competition and Future Development for Hong Kong's Electricity Market

Overseas experience shows that competition does allow more customer choice but does not necessarily drive down tariffs. Further, competition might not be conducive to increased reliability or efficiency. I therefore consider that there is no urgent need to introduce new player(s) in the local electricity market at the present stage. However I do consider it very necessary to make preparatory work for introducing imported electricity to the Hong Kong market in longer term. This is because it is highly unlikely that the Government can afford to allocate any more land sites within Hong Kong for the existing or new power companies, if any, to build power generation plants when the capacities of the existing power plants are fully utilized. Ultimately, Hong Kong has to import electricity from outside to meet for its ever increasing demand.

Li Kai Ming

cc. The Hon WONG Kam-sing, Secretary for the Environment in response to public consultation on the future development of the electricity market

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