

For discussion on
26 January 2016

Legislative Council Panel on Economic Development

2016 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 2016 relating to the electricity market.

New initiative

2. Giving due consideration to the views received during the public consultations relating to the development of the electricity market, the Government will discuss with the power companies the new Scheme of Control Agreements (SCAs) to improve the current regulatory arrangements.

Public Consultation on the Future Development of the Electricity Market

3. The current SCAs signed between the Government and the two power companies¹ run for a term of 10 years, until end 2018, with an option exercisable by the Government to extend the term for five years until 2023. In connection with their expiry, following a review of the electricity market conducted with regard to the four energy policy objectives of safety, reliability, affordability and environmental performance, and the goal to introduce competition to the electricity market when the requisite market conditions are present, the Environment Bureau conducted a public consultation on the future development of the electricity market during March – June 2015. The consultation document set out an analysis of the market readiness to introduce

¹ The two power companies are CLP Power Hong Kong Limited and Castle Peak Power Company Limited (collectively referred to as CLP), and The Hongkong Electric Company, Limited (HKE).

competition and the preparatory work required to pave the way to introduce competition. We also proposed possible options to improve the current regulatory arrangements, and laid out our plans to implement the fuel mix for electricity generation in 2020 having regard to the views received during a separate public consultation conducted earlier on the subject.

4. Some 16 000 submissions were received during the public consultation. Over 25 engagement and consultation sessions were also held with various stakeholder groups, including the academia, chambers of commerce, professional bodies, think tanks, political parties, green groups, this Panel and advisory bodies. A public forum was held in June 2015.

Formulation of New SCAs

5. The outcome of the public consultation was reported to this Panel in November 2015. Majority of the views received consider that the current regulatory arrangement by way of contractual agreements with the power companies is an effective tool in achieving our four energy policy objectives of safety, reliability, affordability and environmental protection. However, it is generally agreed that improvements need to be made to the current SCAs. Having regard to these views, we will discuss with the two power companies new SCAs with improved terms to take effect after the current SCAs expire in end 2018.

6. Taking into account the comments and suggestions received during the public consultation and our experience in operating the SCAs in the past few years, we envisage that some of the possible changes to the future contractual arrangement are as follows -

- (a) Permitted Rate of Return: we consider that the Permitted Rate of Return could be reduced in tandem with the latest economic situation, taking into consideration similar investments internationally;
- (b) Energy efficiency and conservation (EE&C): as noted in many submissions received in the public consultation, the power companies should play a bigger role in helping with the promotion of EE&C. The future contractual arrangement should feature a mechanism for power companies to contribute more in promoting EE&C;

- (c) Renewable Energy (RE): given the majority support for the promotion of RE, we would seek to build in a mechanism in the SCAs to promote distributed RE, including improving the grid access arrangements for distributed RE generators and incentivising their connection to the power grids. We will also consider how the current incentive arrangement for power companies to develop RE projects should be revamped having regard to the public views received on the relevant tariff implications;
- (d) Market opening: we intend to undertake the necessary preparatory work in the next regulatory period to pave the way for introducing potential new suppliers in future. These would include joint studies with the power companies on access by new players to the existing power grids, and 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 intend to set out the relevant requirements in the new SCAs ;
- (e) Incentive and penalty scheme: we plan to revamp the existing incentive and penalty scheme having regard to the performance of the power companies in respect of supply reliability, operational efficiency, customer services and emission performance;
- (f) Information transparency: we would request the power companies to release more information to the public in a more structured manner to facilitate effective monitoring of the performance of the power companies; and
- (g) Tariff and fuel costs: we would seek to strengthen the tariff approval mechanism and control on fuel costs.

Apart from the above, we will also pursue other changes to the SCAs, including those relating to certain accounting practices and arrangements.

7. The proposed changes in the above areas would help better achieve the four energy policy objectives of safety, reliability, affordability and environmental protection. In respect of affordability, apart from the proposed reduction in the Rate of Return, which would

have an impact on the tariff level, we will also seek to improve the current tariff approval mechanism and fuel cost arrangement to enhance the scrutiny over any tariff-related adjustments. Improving the incentive and penalty scheme will help enhance the level of services being provided by the power companies including supply reliability and safety. The proposed measures in respect of EE&C and RE should help us better reduce energy consumption and promote the adoption of cleaner energy, and assist us in achieving the target of reducing energy intensity by 40% by 2025 as compared to 2005 as set out in our Energy Saving Plan for Hong Kong's Built Environment 2015~2025+. Meanwhile, the relevant preparatory work relating to market opening will enable us to prepare for introduction of new suppliers when the requisite market conditions are present. Properly addressing these issues in the ensuing discussion with the power companies is instrumental to facilitating the future development of the electricity market.

Environment Bureau
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