

立法會
Legislative Council

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Panel on Economic Development and Panel on Environmental Affairs

Joint meeting on 29 April 2017

**Background brief on
the Scheme of Control Agreements with the two power companies**

Purpose

This paper sets out the background information of the current Scheme of Control Agreements ("SCAs") signed between the Government and the two power companies, and summarizes the major views and concerns expressed by Members when related matters were deliberated in the meetings of the Panel on Economic Development ("EDev Panel") and Panel on Environmental Affairs ("EA Panel").

Regulation of electricity supply in Hong Kong

2. Electricity in Hong Kong has all along been provided by two privately-owned power companies, viz. the CLP Power Hong Kong Limited and Castle Peak Power Company Limited (referred to collectively as "CLP"), and The Hongkong Electric Company, Limited ("HKE"). The regulation of the two power companies has been exercised through SCAs. The SCAs do not give the power companies any exclusive rights to provide electricity in Hong Kong. Rather, they set out the rights and obligations of the power companies, and the returns for shareholders of the power companies and the arrangements by which the Government monitors the electricity-related financial affairs of CLP and HKE, and their reliability and environmental performance in providing electricity.

3. The current SCAs between the Government and the two power companies will expire in 2018. 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 Administration launched a three-month public consultation on 31 March 2015 to solicit public's views on the future development of the electricity market.

4. The consultation document put forward questions on various major issues regarding (a) introduction of competition; (b) future regulatory framework and possible areas for improvement; and (c) the development of renewable energy ("RE") and demand side management. The key findings are set out in LC Paper No. CB(4)217/15-16(03), and EDev Panel was also briefed on the views received during the public consultation on 23 November 2015.

5. Since then, the Administration has been discussing with the two power companies the new SCAs. The key terms cover, among other things, the followings –

- (a) reducing the permitted rate of return ("RoR")¹ in tandem with the latest economic situation, taking into consideration similar investments internationally;
- (b) introducing mechanisms to encourage power companies to contribute more in the promotion of energy efficiency and conservation;
- (c) introducing mechanisms to promote the development of RE by the private sector;
- (d) improving the fuel costs charging arrangement²;
- (e) improving 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;

¹ Under the current SCAs, the RoR of the power companies is capped at a permitted rate of 9.99% based on their average net fixed assets.

² Currently, a fuel clause recovery account is maintained by the two power companies through which the differences between the standard fuel charges (included in the basic tariff) and actual fuel prices incurred are returned to or recovered from consumers by means of a rebate or a surcharge each year.

- (f) improving transparency on the power companies' operational and financial information; and
- (g) setting out the requirements to undertake the necessary preparatory work in the next regulatory period to pave the way for introducing potential new suppliers in future.

Views and concerns expressed by Members

6. Electricity tariff which is regulated by the current SCAs has all along been a matter of contention, and members have expressed views and concerns over a range of issues at the previous meetings of EDev Panel and EA Panel, including –

- (a) reviewing the current permitted RoR of the two power companies which was considered to be too high;
- (b) enhancing the monitoring of the power companies' investment on generation facilities and treatment of excessive generating capacity;
- (c) enhancing the transparency of the processes for the formulation of SCAs, tariff adjustments and development plans of the two power companies, and consulting the Legislative Council ("LegCo") first when approving such arrangements, so as to facilitate public monitoring;
- (d) implementing increased interconnection between the networks of the two power companies to minimize investment on new generating units;
- (e) segregating power generation and transmission to facilitate market entry and competition;
- (f) introducing electricity suppliers to enhance market competition with a view to lowering the tariff;
- (g) tariff implications of using more natural gas for power generation under the new fuel mix plan;

- (h) sourcing cheaper gas supplies or importing less costly alternative fuels such as nuclear energy, liquefied natural gas or shale gas to reduce the pressure on tariff increase;
- (i) enhancing emission reduction in power generation through the use of cleaner fuels, optimizing emission control devices, and introducing emission allowances for more types of pollutants;
- (j) striking a balance between commitment to environmental protection and cost control on power generation;
- (k) stepping up the promotion of energy saving initiatives and adopting various measures to reduce electricity consumption; and
- (l) encouraging the development of distributed RE power generation facilities and networks, and providing technical support and concessions for connection to electricity grids.

7. EDev Panel also deliberated on matters relating to concessionary electricity tariff for needy families at the meeting on 13 December 2016. A motion concerning the relevant matter was passed at the Panel meeting on 23 January 2017. Wording of the motion is in **Appendix I**.

Council questions and motion

8. At the Council meetings of the Fifth LegCo and Sixth LegCo, Members had raised a number of questions relating to SCAs covering, among other things, their effectiveness in achieving the target of energy saving, the possibility of reducing electricity tariffs, reviewing the terms relating to the permitted RoR and plant margin, and provision of concessionary tariffs for tenants in inadequate housing in the new SCAs. Hyperlinks to the relevant written replies from the Administration are provided in **Appendix II**.

9. At the Council meeting of 18 January 2012, a motion on "Creating a sustainable and open electricity market" was passed. Hyperlinks to the motion and progress report on actions taken in respect of the motion are provided in **Appendix II**.

Latest developments

10. On 25 April 2017, the Chief Executive in Council ordered that the Government should sign the new SCAs with the two power companies. The Government and the two power companies entered into new SCAs on the same day.

11. The Administration will brief members on the new SCAs with the two power companies at the joint meeting of EDev Panel and EA Panel on 29 April 2017.

References

12. A list of the relevant papers which are available on the LegCo Website (<http://www.legco.gov.hk>) is at **Appendix II**.

Council Business Division 4
Legislative Council Secretariat
28 April 2017

經濟發展事務委員會

在 2016 年 12 月 13 日的會議上
就議程項目 V "與兩間電力公司進行的週年電費檢討" 提出
並在 2017 年 1 月 23 日會議上通過的議案

兩電作為公共事業，有義務承擔社會責任，幫助基層社群。過去，兩電有一些援助基層政策，如提供長者及單親家庭電費補貼、「全城過電」計劃等，值得嘉許。但香港仍有許多住戶仍陷於「能源貧窮」，經濟上難以負擔家庭能源開支，苦不堪言。故此，本會促請政府採取適合措施，協助他們渡過難關，如增加惠及低收入人士及劏房戶的電費補貼、修改《供電則例》以阻嚇業主濫收電費等，以改善劏房戶面對高昂電費的問題。

原議案動議人：羅冠聰議員

修正案動議人：易志明議員, JP

(Translation)

Panel on Economic Development

**Motion proposed under agenda item V on "Annual tariff reviews with the two power companies" at the meeting on 13 December 2016
and passed at the meeting on 23 January 2017**

That, the two power companies, as public utilities, are obliged to take up social responsibilities and help grass-roots communities. In the past, the two power companies launched some policies to help the grass-roots, such as provision of subsidies on electricity charges for the elderly and single-parent families, and the "Power Your Love Programme", which are commendable. However, many households in Hong Kong are still suffering from "energy poverty", meaning that they are financially unable to afford domestic energy costs and therefore in a dire situation. In this connection, this Panel urges the Government to adopt appropriate measures to help them tide over the difficulties, such as increasing the subsidies on electricity charges for low-income earners and tenants of sub-divisions of flat units, and amending the Supply Rules to deter landlords from overcharging tenants of sub-divisions of flat units for use of electricity so as to ameliorate the problem of expensive electricity charges faced by these tenants.

Original motion moved by : Hon Nathan LAW Kwun-chung

Amendment moved by : Hon Frankie YICK Chi-ming, JP

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	8 January 2008 (Item I)	Administration's paper
	25 November 2013 (Item VI)	Administration's paper Administration's follow-up paper Background brief Minutes
	23 November 2015 (Item IV)	Administration's paper Background brief Minutes
	13 December 2016 (Item V)	Background brief Minutes
	23 January 2017 (Item VI)	Motion moved by Hon Nathan LAW and amended by Hon Frankie YICK Administration's response to the motion Administration's paper Minutes
Panel on Environmental Affairs	28 April 2014 (Item VI)	Administration's paper Background brief Minutes
	22 June 2015 (Item IV)	Administration's paper Minutes
	29 September 2015 (Item I)	Administration's paper Background brief Minutes
	23 May 2016 (Item IV)	Administration's paper Background brief Minutes

Issued by	Meeting date/ Issue date	Paper
	24 October 2016 (Item III)	<u>Administration's paper</u> <u>Background brief</u> <u>Minutes</u>
	23 January 2017 (Item IV)	<u>Administration's paper</u> <u>Minutes</u>
Council Meeting	18 January 2012	<u>Motion on "Creating a sustainable and open electricity market" moved by Hon Audrey EU as amended by Hon Fred LI and Hon Starry LEE</u> <u>Progress report on actions taken in respect of the motion on "Creating a sustainable and open electricity market" moved by Hon Audrey EU as amended by Hon Fred LI and Hon Starry LEE</u>
	17 October 2012	<u>Council question on "Measures to facilitate reduction in electricity tariffs" raised by Dr Hon Kenneth CHAN</u>
	7 November 2012	<u>Council question on "Interim review of the Scheme of Control Agreements" raised by Hon Cyd HO</u>
	19 June 2013	<u>Council question on "Review of the Scheme of Control Agreements and the fuel mix" raised by Hon LEUNG Yiu-chung</u>
	3 July 2013	<u>Council question on "Energy saving as one of the directions of the interim review of the Scheme of Control Agreements" raised by Dr Hon Elizabeth QUAT</u>

Issued by	Meeting date/ Issue date	Paper
	6 November 2013	<u>Council question on "Interim review of the Scheme of Control Agreements and the tariff review" raised by Hon SIN Chung-kai</u>
	21 January 2015	<u>Council question on "Review of the Scheme of Control Agreements" raised by Hon WONG Kwok-hing</u>
	24 June 2015	<u>Council question on "Future development of the electricity market" raised by Hon James TIEN</u>
	11 January 2017	<u>Council question on "Water and electricity charges of tenants in inadequate housing" raised by Dr Hon LAU Siu-lai</u>