

For discussion on
23 January 2017

Legislative Council Panel on Economic Development

2017 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 2017 relating to the electricity market.

Discussion with the Power Companies on the New Scheme of Control Agreements (SCAs)

2. The current SCAs signed between the Government and the two power companies¹ run for a term of 10 years until 2018 with an option to extend for 5 more years till 2023. In connection with the end of the 10-year tenure, the Environment Bureau conducted the Public Consultation on the Future Development of the Electricity Market in 2015. Among other things, the consultation document set out an analysis of the market readiness to introduce competition in the electricity market 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 plan to increase the percentage of local gas generation to around 50% of the total fuel mix in 2020 having regard to the views received during a separate public consultation conducted in 2014 in which most of the respondents supported using more natural gas for local generation.

3. The outcome of the public consultation was reported to this Panel in November 2015. On the introduction of competition, the majority of the respondents considered that currently the power supply in Hong Kong was reliable and safe at affordable prices, and they did not see a need for introducing competition simply for the sake of bringing in choices. Some respondents also considered that while bringing in

¹ The SCA signed with CLP Power Hong Kong Limited and Castle Peak Power Company Limited will expire on 30 September 2018 while the one with The Hongkong Electric Company, Limited will expire on 31 December 2018.

choices had its merits, the requisite conditions for introducing competition were not present at this stage. On the regulatory arrangement, majority of the views received considered that the current regulatory arrangement by way of contractual agreements with the power companies was 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 when the Government drew up the new SCAs with the power companies.

4. Having regard to views collected, we are proactively discussing with the two power companies new SCAs with improved terms to take effect after the current SCAs expire in 2018. The key terms would, inter alia, cover –

- (a) Reducing the Permitted Rate of Return 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 renewable energy by the private sector, including the development of distributed renewable energy in the community, and to encourage the power companies to facilitate such development;
- (d) Improving the fuel costs charging arrangement;
- (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;
- (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.

5. In addition to achieving the four energy policy objectives, we will strive to reduce energy consumption and promote the adoption of cleaner energy through the new SCAs. Hence in drawing up the new SCAs, we will take into account amongst other factors our target of reducing carbon intensity by 65-70% by 2030 as compared with 2005 as announced in the 2017 Policy Address, as well as our 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+.

Environment Bureau
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