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16 July 2018

Ms Shirley Chan
Clerk to Panel (Economic Development)
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Ms Chan,

Panel on Economic Development
Follow-up to special meeting on 4 July 2018

We would like to provide our reply below in response to your letter of 5 July 2018.

(a) Based on the power companies' projected average Net Tariff Rates (after rebates) during the new Development Plan (DP) period, the projected cumulative tariff increase over the new DP period for a typical 3-member family household consuming about 275kWh per month (in terms of electricity consumption, those customers consuming 275kWh per month or below currently account for about half of residential accounts in Hong Kong) is roughly equivalent to $3,000. On this basis, the proposed electricity charges relief of $8.7 billion is expected to roughly cover the projected cumulative tariff increase over the new DP period for about half of the residential accounts in Hong Kong.

(b) Under the existing regulatory arrangements, there is a clear demarcation of the roles and responsibilities between the Government and the power companies. The Government is responsible for regulatory oversight on the power companies' performance and investment, while the power companies invest, operate and deliver a reliable supply of electricity. If the Government were to invest in the infrastructure projects of the power companies, it would mix up the Government's role as a regulator (as the Government would have become both an investor in power generation with the two power companies and their regulator). In addition, it would give the false impression that the Government were to nationalise the electricity industry or even invite questions on the effectiveness of the Government's regulatory arrangements over power companies and whether the Government, being an investor in power companies, would offer inequitable policies that favour them.

In terms of timing, if the Government were to construct the offshore LNG terminal, it would first need to negotiate with the two power companies before working out all the detailed requirements and arrangements. Besides, the Government would need to seek funding approval from the Finance Committee of the Legislative Council. As it would take time to go through the above procedures, the LNG terminal will not be ready for commissioning in 2021 as planned to meet the need of additional gas supply. CLP Power Hong Kong Limited (CLP) and The Hongkong Electric Company, Limited (HKE) currently only have two and one gas pipeline(s) respectively. With the increasing use of natural gas for electricity generation, any delay in the commissioning of the LNG terminal may affect the security and reliability of gas supply and hence the reliability of electricity supply to consumers.

(c) The proposed relief is a one-off measure aiming to help residential customers transit to a low carbon future and assist households to tide over the drastic increase in fuel cost owing to particularly the fuel mix change in 2020. As the fuel cost is charged on a pass through basis and the Government has no control on the fuel price, it is not appropriate for the Government to commit to keep the annual tariff increase to less than 2%.

(d) The offshore LNG terminal project mainly involves the construction of a double berth jetty and subsea gas pipelines from the jetty to the power companies' respective power stations. Under the current plan, the respective share of funding/ownership of CLP and HKE for the double berth jetty is 70:30. In respect of the subsea gas pipelines, the two power companies will construct their own pipelines from the jetty to their respective natural gas receiving stations at Black Point Power Station and Lamma Power Station.

(e) CLP has been importing power through the existing Clean Energy Transmission System (CETS) to meet around 30% of the energy needs of its customers for more than 25 years with a proven record. The existing CETS is a 400kV high-voltage transmission system, comprising two cross-border transmission overhead lines connecting Hong Kong and both the China Southern Power Grid and Daya Bay Nuclear Power Station.

The CETS enhancement project will involve the replacement of some 160km of overhead lines, which have been used for more than 25 years, with lines that have higher transmission capacity in order to enhance the reliability and transmission capacity. Some of the overhead line towers will be relocated in accordance with the latest technical and environmental requirements. Neither new interconnection circuit nor new network connection point will be added, and the current interconnection arrangement and operation mode will be maintained upon completion of this enhancement project. The estimated capital expenditure on CETS enhancement is about $2 billion.

The enhancement, expected to be completed by 2025, will provide Hong Kong with greater flexibility to use more zero carbon energy to manage our local fuel mix, thereby enabling us to significantly advance our achievement of carbon intensity reduction target for 2030 (i.e. reduction of carbon intensity by 65% to 70% as compared to the level in the base year of 2005) by as much as five years. In addition, the CETS will delay the plans for and reduce the capital investment on new gas units to replace the coal units which are due to retire in 2025 and beyond.

While the current source of imported power of CLP's CETS is nuclear power, CETS can in fact import power generated from various sources (e.g. water, wind, solar energy, nuclear energy). CLP at present has yet to decide on the sources of such clean energy for its enhanced system but will need prior approval from the Government before it could import more power. Possible options of utilising more zero carbon energy will be covered by the Public Engagement exercise on Long-term Decarbonisation Strategy to be conducted by the Council for Sustainable Development (SDC) at the end of 2018. The Government will take into account all relevant factors, including the public comments collected by and recommendations of the SDC as it scrutinises CLP's application.

(f) Promotion of energy efficiency and conservation (EE&C) is the key focus of the new Scheme of Control Agreements (SCAs). While the scope of the existing programmes would be expanded, new elements will also be introduced under the new SCAs. The key EE&C measures include –

(i) The maximum number of energy audits conducted by power companies which are allowed to earn incentive will be increased four-fold;

(ii) The scope of the Eco-Building Fund (EBF) of CLP and Smart Power Fund (SPF) of HKE will be expanded to support the carrying out of retrofitting and retro-commissioning, and implementation of building-based smart/IT technologies, or other improvement measures to be agreed with the Government. The coverage of the EBF and SPF will also be expanded from non-commercial buildings to both commercial and non-commercial buildings. To cater for this expansion, the size of EBF and SPF will be increased;

(iii) 65% of the financial incentives earned from achieving the targets under paragraphs (i) and (ii) above will be ploughed back by the power companies for the benefit of consumers for deployment under the new Community Energy Saving Fund (CESF) to be established by the power companies respectively. One of the purposes of the CESF is to support EE&C programmes such as encouraging customers (including disadvantaged customers) to replace or upgrade their electrical appliances to more energy-efficient models; and

(iv) Both power companies will introduce demand response programmes, which should help reduce maximum demand on the basis of which the generating capacity of power companies is planned.

In addition to the above, both power companies will continue to maintain a loan fund (i.e. CLP: $25 million per annum; HKE: $12.5 million per annum) to provide loans to non-Government customers to implement initiatives to promote EE&C. The existing education fund would also be doubled in size (i.e. CLP: $10 million per annum; HKE: $5 million per annum) to enhance promotional efforts in this area.

Besides, both power companies will replace their electromechanical meters by smart meters with backend facilities under a seven-year programme to be completed by 2025. This will also help energy saving by providing instant power consumption information to customers, and achieve operational cost savings through remote meter reading and implementation of demand response schemes. The project will help turn Hong Kong into a smart city and enable consumers to save energy.

Yours sincerely,

(Ms Esther Wang)
for Secretary for the Environment