Government approves new Development Plans of two power companies

The Chief Executive-in-Council (CE-in-Council) approved today (July 3) the new Development Plans (new DPs) of CLP Power Hong Kong Limited and Castle Peak Power Company Limited (collectively CLP) covering the period from October 1, 2018, to December 31, 2023, and that of the Hongkong Electric Company Limited (HKE) covering the period from January 1, 2019, to December 31, 2023.

The New Development Plans

Speaking at today's press conference, the Secretary for the Environment, Mr Wong Kam-sing, pointed out that the new Scheme of Control Agreements (SCAs) reached with the two power companies, offering key features on promoting energy efficiency and conservation (EE&C) and renewable energy, are the greenest SCAs ever. In the new DPs under the SCAs, the power companies have included essential capital projects to change the fuel mix for electricity generation which will help combat climate change and further improve air quality, enhance the reliability and security of local electricity supply and assist in turning Hong Kong into a smart city.

Mr Wong said, "The new DPs are also expected to provide an opportunity for us to advance our achievement of the carbon intensity reduction target for 2030, and bring Hong Kong a further improvement of local air quality.

"With the assistance of an independent energy consultant, the Government spares no effort in performing its gate-keeping function when reviewing the new DPs. We have critically reviewed the need, timing and budget of the capital projects proposed by the power companies with a view to minimising their impact on tariffs arising from the need to combat climate change and improve air quality for our whole community."

Mr Wong explained that unlike in the past 20 years when there have been no plant replacements by the power companies, about 10 coal units would reach their scheduled retirement life by 2030. The new DPs include key investment proposals to construct two additional new gas-fired generating units (gas units), i.e. D2 of CLP and L12 of HKE for respective commissioning in 2022 and 2023 to replace coal units which have been operating for over 30 years. As a result, the overall gas-fired generation of the power companies will increase from the present level of about 26 per cent for CLP and about 34 per cent for HKE to both around 50 per cent in 2020, and further to over 50 per cent for CLP and about 70 per cent for HKE by 2023. With the increasing use of natural gas for power generation in the coming years, the power companies have planned to jointly build an offshore liquefied natural gas terminal in Hong Kong waters. This will be crucial to the diversification of their source of natural gas and enhancement of their supply security. It will also help them secure natural gas at a more competitive price and hence mitigate the pressure on tariff increases.

To support the EE&C initiatives under the new SCAs, both power companies will replace their electromechanical meters with smart meters with backend facilities. These smart meters will help individual customers achieve energy saving by providing them with instant power consumption information and enable implementation of demand response schemes. This project will help turn Hong Kong into a smart city.

Other key projects include CLP's enhancement of the clean energy transmission system (CETS) with China Southern Power Grid and Daya Bay Nuclear Power Station. When completed in 2025, the strengthened network will give Hong Kong the capability and flexibility to use more zero-carbon energy from the Mainland to manage the local fuel mix, thereby advancing Hong Kong's achievement of its carbon intensity reduction target for 2030 (i.e. reduction of carbon intensity by 65 per cent to 70 per cent as compared to the base year of 2005) by as much as five years. In addition, the CETS will delay the plans for and/or reduce the capital investment on new gas units to replace the coal units which are due to retire in 2025 and beyond. 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 at the end of 2018.

2018-19 Electricity Tariffs

In addition, the CE-in-Council has also approved the new average tariff rates on commencement of the new SCAs as part of the power companies' new DPs. CLP's new tariff adjustment covers 15 months from October 1, 2018, to December 31, 2019, whereas that of HKE covers 12 months from January 1, 2019, to December 31, 2019.

"The Net Tariff Rate of any particular year may be reduced if power companies offer special rebates, like the large special rent and rates (R&R) rebate and fuel rebate totalling 20 cents per kilowatt-hour (kWh) offered by HKE in 2018 (i.e. about 15 per cent of the net tariff in 2018). These special rebates are, however, ad hoc in nature and are unlikely to emerge on a regular basis. Hence, when we consider the tariff trend over a longer term such as the five-year DP period, it is more appropriate to use the average Net Tariff Rate at the level of before special rebates as the reference for comparison," Mr Wong said.

Both the power companies will reduce their Basic Tariff Rates (CLP by 3.7 per cent and HKE by 7.1 per cent) as a result of the reduction (i.e. 1.99 percentage points) in the permitted rate of return on commencement of the new SCAs. However, as the oil price has increased by almost 40 per cent since the signing of the SCAs in April 2017, CLP's average Net Tariff Rate on October 1, 2018, will increase by 2 per cent to 118.8 cents per kWh (before rebate) and to 117.7 cents per kWh (after rebate). For HKE, its average Net Tariff Rate (before rebates) will be reduced by 5.9 per cent to 124.7 cents per kWh and its Net Tariff Rate after rebate will be 120.1 cents per kWh on January 1, 2019, owing to the significant reduction of HKE's special R&R and fuel rebates in 2019.

2020 to 2023 Projected Electricity Tariffs

The projected electricity tariffs for 2020 to 2023 are only projections and the actual tariffs to be charged to consumers each year will be determined in the respective annual Tariff Review having regard to various factors, particularly the actual fuel costs prevailing at the time. The average Basic Tariff Rate during the entire new DP period is projected to increase at an annual rate of 1.4 per cent for CLP and 1.2 per cent for HKE while the average Net Tariff Rate (before rebates) is projected to increase at an annual rate of 3.5 per cent for CLP and 2.8 per cent for HKE. The projected Net Tariff in 2023 for a three-member household consuming 275 kWh per month of CLP and HKE would be about $1.36 and $1.04 per kWh respectively, which would still be about 30 per cent lower than the current tariffs of other major cities (e.g. London, New York and Sydney). Details of the 2018-19 electricity tariffs and the projected electricity tariffs from 2020 to 2023 are set out in the Annex.

Electricity Charges Relief

Mr Wong said, "The Government is committed to achieving the carbon intensity reduction target for 2030 to combat climate change and improving local air quality. As electricity generation accounts for around two thirds of our local carbon emission and is also closely related to our air quality, we must endeavour to reduce carbon emission and improve air quality by revamping our fuel mix through the SCAs and DPs. The Government understands the concern of the public over the inevitable increase in tariffs arising from the change of fuel mix. To help alleviate the impact of tariff increases on households during the transition to a lower carbon future, the Government proposes to grant an electricity charges relief of $3,000 over 60 months (i.e. $50 per month) to each residential electricity account when the new SCA period commences, i.e. from October 1, 2018 (for CLP), and from January 1, 2019 (for HKE). The electricity charges relief is expected to roughly cover the projected cumulative tariff increase over the five-year period for about half of the households in Hong Kong."

The Government will aim to seek funding of about $8.7 billion from the Finance Committee of the Legislative Council before the summer recess with a view that the electricity charges relief can be distributed to residential electricity accounts when the new SCA period commences.