

LCQ6: Scheme of Control Agreements signed between Government and two power companies

Following is a question by Dr the Hon Hoey Simon Lee and a reply by the Secretary for Environment and Ecology, Mr Tse Chin-wan, in the Legislative Council today (June 7):

Question:

Regarding the current Scheme of Control Agreements (SCAs) signed between the Government and the two power companies, will the Government inform this Council:

(1) given that under SCAs, CLP Power Hong Kong Limited and the Hongkong Electric Company Limited set up the New Eco-Building Fund and the New Smart Power Fund respectively, and the two power companies may on the one hand earn incentives for achieving the targets in relation to energy audits, energy saving from audits and the funds concerned, while on the other hand they may also receive incentives for achieving the targets in relation to energy efficiency, energy conservation and renewable energy as set out in SCAs and have their permitted returns adjusted accordingly, whether the Government has assessed if the aforesaid arrangements will result in the two power companies making double profits;

(2) given that the Government will review the incentive and penalty mechanism under SCAs with a view to increasing the penalties for major power outage incidents, whether the Government will review the incentive and penalty mechanism for the three performance indicators of "supply reliability", "operational efficiency" and "customer services" at the same time; and

(3) as it is pointed out in SCAs that the two power companies will co-operate with the Government in a study on the detailed arrangements for strengthening the interconnection between the power grids of the Mainland and Hong Kong as well as that between the existing power grids in Hong Kong, and on the potential access to the power grid by third parties, whether the Government has conducted studies on grid interconnection and started planning for opening the access to the power grid?

Reply:

President,

The current Scheme of Control Agreements (SCAs) signed between the Government and CLP Power Hong Kong Limited and Castle Peak Power Company Limited (collectively referred to as CLP), and between the Government and the Hongkong Electric Company, Limited and HK Electric Investments Limited

(collectively referred to as HEC), came into effect on October 1, 2018, and January 1, 2019, respectively. The SCAs set out the obligations of the power companies, the returns for shareholders, and the arrangements by which the Government monitors the companies' electricity-related corporate affairs.

The current SCAs have a term of 15 years and will expire in 2033. The Government and the power companies shall have the right during the year ending December 31, 2023, to request modification of any part of the current SCAs. All proposed modifications will not take effect unless a written agreement is made by all parties on the modifications. The Government is preparing to conduct an interim review of the SCAs in 2023 together with the power companies.

Regarding the question raised by Dr the Hon Hoey Simon Lee, our reply is as follows:

(1) To encourage the two power companies to promote energy efficiency and conservation and develop renewable energy (RE), the SCAs set out relevant performance targets. If the two power companies achieve the targets in relation to energy efficiency and conservation and RE as set out in the SCAs, they can receive incentives and have their permitted returns adjusted accordingly. The relevant performance targets vary in nature and mainly include the following categories:

(i) Energy Audit Performance refers to the number of energy audits completed for industrial and commercial customers by power companies in that year under the "Energy Audit Programme" of the SCAs;

(ii) Energy Saving Performance audited under the "Energy Audit Programme" or by other authorised persons refers to the aggregate energy saving attributed by the energy-saving technologies which are installed at the industrial and commercial customers of the power companies in that year;

(iii) "New Eco-Building Fund" Performance of CLP and "New Smart Power Fund" Performance of HEC refer to the number of buildings with confirmed projects which have commenced and energy saving performance of the buildings subsidised by the power companies, with respect to the retrofitting or retro-commissioning, implementation of building-based smart/IT technologies or any other improvement measures as agreed with the Government carried out in the common areas in commercial and non-commercial buildings. The energy saving performance claimed for incentives under this category cannot be claimed under item (ii) above at the same time; and

(iv) Renewable Energy Performance refers to the total amount of electricity generated by RE systems in that year, etc.

In submission of energy saving performance, the two power companies are also required to declare if there are any incentives earned from other items. The Government will conduct spot-check on the information of energy saving performance during the Auditing Review to ensure no double profits are made.

(2) The Government keeps an open mind with regard to the interim review of the SCAs and has not set any limit on the scope of review. In respect of the views collected, the Government intends to negotiate with the power companies to modify the current SCAs, including but not limited to reducing the permitted returns, requesting power companies to share fuel costs in the event of energy crisis, and reviewing the incentive/penalty mechanism by increasing penalties for major power outage incidents. The SCAs set out the Customer Performance Incentive/Penalty Mechanism covering four performance categories, namely "Supply Reliability", "Operational Efficiency", "Customer Services" and "Supply Restoration". The relevant mechanism will also be included in the review. Upon completion of the interim review, the Government will report the outcome in due course.

(3) The Government has been working on strengthening regional co-operation with a view to stabilising electricity tariffs, ensuring energy security and obtaining more clean energy. As promulgated in the Hong Kong's Climate Action Plan 2050, the Government, together with the power companies, will explore ways to enhance regional co-operation and identify sources of zero-carbon energy in neighbouring regions, including seeking investment and development opportunities for participating in and operating zero-carbon energy projects near Hong Kong. Under the strengthened regional co-operation, we can also consider enhancing the interconnection of the power grid and introducing new electricity suppliers.

With regard to strengthening regional co-operation, CLP currently imports electricity through its Clean Energy Transmission System (CETS) connected to the Daya Bay Nuclear Power Station and the electricity network of the China Southern Power Grid. The Government approved CLP's Development Plan in 2018, which includes the CETS enhancement project, under which overhead lines will be replaced to increase the transmission capacity. The project, expected to be completed in 2025, will provide Hong Kong with greater flexibility to import more clean energy.

In addition, the Government has reserved land in Tseung Kwan O Area 132 to build electricity facilities, which is strategic in enhancing regional energy co-operation. The electricity facilities will connect to the electricity supply systems of the two power companies in future, and can strengthen the interconnection between the two power companies and the ability of electricity transmission, thereby helping to stabilise electricity tariffs and reduce emissions from local power plants in the long run for the benefit of members of the public in Hong Kong. The project is currently still in the preliminary planning stage. Having regard to the time required for planning, construction and completion of the new cross-boundary electricity transmission and receiving facilities, the electricity facilities are expected to be commissioned before 2035.

According to overseas experience, opening up the power grid will not necessarily reduce electricity tariffs and ensure stable electricity supply. A stable and reliable electricity market is essential for Hong Kong's energy security, economic development and people's livelihood. The electricity market involves huge investment and requires professional and reliable

operation, as well as co-operation with neighbouring regions. Whether the power grid should be opened up in the long run will involve complex considerations, including ways to eliminate vicious competition while ensuring that power companies will invest adequate resources, and construct, maintain stable and reliable electricity supply, maintain a reasonable level of electricity tariffs, and provide clean energy to achieve the goal of carbon neutrality.

According to the current SCAs, any changes introduced to the regulatory framework of electricity supply will only be implemented at the earliest after the expiry of the SCAs, i.e. in end-2033. In recent years, in view of the international trend to strive towards carbon neutrality, the electricity technology is changing rapidly and will very likely affect the operation approach of the future electricity market. Therefore, our focus at this stage is to promote the strengthening of regional co-operation to stabilise electricity tariffs and ensure the stability and security of energy supply. Under the framework of the SCAs, we will explore and study the operation and regulation of the future electricity market, including whether to open up the power grid, with the two power companies at an appropriate juncture.

Thank you.