Attachment

Summary of the Changes to the Current Scheme of Control Agreements as Agreed with the Power Companies

(1) Duration

– About 15-year term: 1 October 2018 to 31 December 2033 for CLP; 1 January 2019 to 31 December 2033 for HEC.

– To discuss with CLP and HEC of potential future changes to the electricity supply regulatory framework before January 2031.

– Interim reviews every five years to consider any modifications to the new Scheme of Control Agreements (SCAs) with any changes to be mutually agreed.

(2) Permitted Rate of Return (RoR)

– 8% on Average Net Fixed Assets (ANFA) with effect from 1 October 2018 and 1 January 2019 for CLP and HEC respectively.

– Same RoR for renewables and non-renewables assets.

(3) Promotion of Energy Efficiency and Conservation (EE&C)

– The incentive schemes in relation to promotion of EE&C under the current SCAs will be expanded while new elements will be introduced such that the power companies will be further encouraged to promote EE&C.

– Expand the existing programmes:

- Incentive targets for energy audits and energy saving from audits will be increased.
- The scope of the energy efficiency funds of the power companies 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 funds will also be expanded from non-commercial buildings to both commercial and non-commercial buildings. To cater for this expansion, the size of the funds will also be increased.
- Loan fund of $25 million and $12.5 million per annum for CLP and HEC respectively to provide loans to their non-government customers to implement initiatives to promote EE&C.

- Education fund of $10 million and $5 million per annum for CLP and HEC respectively for promotion activities in relation to EE&C.

– Introduce new elements:

  – Power companies will plough back 65% of the incentives earned from achieving the targets under energy audits, energy saving from audits and energy efficiency funds to set up a new Community Energy Saving Fund to further support EE&C, such as encouraging and supporting customers (including disadvantaged customers) to replace or upgrade their electrical appliances to more energy-efficient models, green building initiatives, RE and disadvantaged groups.

  – A new five-year energy saving target will be set. Power companies must achieve at least 4% energy saving on the basis of the average annual sales within a five–year period in order to earn incentive. More incentives will be given if the said energy saving reaches 5% within the said period.

  – Power companies will be incentivised to introduce demand response programmes to help reduce maximum demand.

(4) Promotion of Renewable Energy (RE)

- Measures to promote the development of RE, such as Feed-in Tariff and RE certificate schemes, will be introduced.

- Grid connection arrangements for distributed RE systems will be improved.

- Power companies will be incentivised to achieve targets on the volume of electricity generated by RE systems in the power companies' respective service area (excluding RE generated by RE systems directly owned by the Government) as a percentage of total volume of electricity generated by the respective power company in Hong Kong.

- Power companies will be incentivised to make new connections of RE systems to the power companies' respective power grids.

- Power companies will be incentivised to sell RE certificates.

(5) Fuel Costs

- A more frequent Fuel Clause Charge adjustment mechanism will be introduced such that actual fuel costs borne by power companies will be reflected in tariffs in a more timely manner.

(6) Incentive/Penalty Schemes in relation to Operational Performance

- The incentive/penalty levels and thresholds in relation to supply reliability, operational efficiency and customer services will be raised where appropriate.

- A new performance indicator – grid supply restoration – will be introduced.

(7) Market Development

- Power companies are required to co-operate with the Government in (a) a study of potential access to the electricity grid by third parties; and (b) a study to consider the detailed arrangements for strengthening the interconnection between the Mainland and Hong Kong, as well as that between the existing grids in Hong Kong.

- Power companies are required to publish segregated cost data pertaining to their generation and non-generation systems.

(8) Mechanism for Treatment of Excess Generating Capacity

- Deduction from ANFA for excess capacity will be increased from 50% to 100% of the net asset value of the mechanical and electrical equipment.

(9) Cap on Interest on Long-term Borrowings

- Cap on interest deduction from the permitted RoR on long-term borrowings (i.e. borrowings arranged for financing of fixed assets as well as customers' deposits) will be reduced to 7%.

(10) Transparency

- Enhancement of transparency on the power companies' operational and financial information by releasing such information in a more structured manner through compilation of an electronic information booklet for public disclosure.

(11) Emission Performance Linkage Mechanism (EPLM)

- Removal of the EPLM, whereby incentives are offered or penalties imposed on the power companies in respect of their performance in emission reduction, for the new SCA with HEC (EPLM in the current SCA with CLP was removed as a result of the Mid-term Review in 2013).