

16 June 2015

## **CLP Advocates Three Guiding Principles in New Electricity Regulatory Regime**

Greener and Smarter Electricity, Enhanced Customer Experience and Effective Regulation are three guiding principles to be sought for in the next set of electricity sector regulatory arrangements, advocated by CLP Power Hong Kong Limited (“CLP Power”) in its response submitted to the Government today (16 June 2015) on the public consultation on the Future Development of the Electricity Market.

Mr Paul Poon, Managing Director of CLP Power said, “Hong Kong is known for its spirit of continuous improvement, of which we have been a part. We acknowledge the community will always wish to do better. Nevertheless we must be very clear about the objectives for any proposals for change, to ensure that the electricity system and its benefits that we enjoy today will not be compromised but enhanced. We need the right long-term framework to ensure that a safe, reliable and healthy power sector continues to create long-term value for our customers and for Hong Kong. Building on the strengths of the current Scheme of Control and evolving along the three proposed guiding principles will enable us to deliver this long-term value for Hong Kong.”

Mr Poon emphasised that CLP has actively consulted and included the views of our stakeholders in preparing this response to the Government.

“We should build on what we already have and continue to deliver the Government’s four energy policy objectives - safe and reliable power with improving environmental performance at reasonable tariffs,” he said. “The Government recognises that the Scheme of Control has served Hong Kong well in the past 50 years. We believe it can evolve and form a good basis for any new arrangements.”

The three guiding principles advocated in CLP’s Response Report are:

### **A Greener and Smarter Electricity Sector**

CLP aims to help make electricity use smarter and greener, by helping to support the development of small distributed renewable energy schemes in Hong Kong and working to help customers manage their electricity demand.

### (a) Renewable Energy

Although there are constraints to large scale renewable energy (RE) development in Hong Kong, we want to support the development of smaller distributed RE systems, at a scale in line with the community's willingness to pay the extra costs involved. To achieve this, the possible tools that can be explored include:

- **Financial support mechanisms – Feed in Tariffs** (owners of distributed renewable generation receive payments from the grid company for any power that they produce in excess of their own requirements) encourage RE development but are controversial in other countries, due to the costs of such schemes often exceeding initial estimates. Subject to the community's views, a pilot scale Feed in Tariffs trial can be explored. **Net Metering** (surplus power exported to the grid is used to offset charges for those times when the owner is importing power from the grid) is opined to be a less costly way to encourage RE development in Hong Kong. We will discuss with the Government on how Net Metering schemes might be included in future regulatory arrangements, subject to their scale and costs are at a level that the community is willing to accept;
- **Other forms of support** - CLP would enhance and facilitate the connection of distributed renewable energy facilities to the power grid through simple and more flexible procedures; and
- **Incentives** – CLP would work with the Government to promote greener and smarter approaches wherever possible. Suitably targeted incentives can have a role to play in energy efficiency and conservation, as well as promotion of renewable energy.

### (b) Conventional Electricity Generation

Hong Kong will need output from gas, nuclear and coal plants for many years to come and we aim to utilise these fuels as efficiently as possible, minimising their emissions.

- **Using more natural gas** - Given the community's preference for local build generation, CLP is working on proposals for new efficient Combined Cycle Gas Turbine (CCGT) capacity to be ready for 2020 to meet the Government's proposed emissions targets. In the longer term Hong Kong will need to determine both the most appropriate sources of gas and the infrastructure to deliver it, whether this be through pipelines, fixed or floating Liquefied Natural Gas (LNG) terminals or a combination.
- **Additional nuclear power import from Daya Bay Power Station** - In the longer term, CLP believes that nuclear power should continue to be a part of our fuel mix and that we should explore ways of importing it in a manner that is acceptable to the community. It will offer an important element of diversity as we seek to minimise generation costs and emissions.

## **Enhanced Customer Experience**

CLP will work to help customers save electricity expenses through a greater focus on energy efficiency and conservation.

### **(a) Energy Management**

CLP supports the Government's recently published policy paper, an Energy Saving Plan for Hong Kong's Built Environment with themes on promoting energy wise buildings, mobilising stakeholders, and the community taking responsibility. We will play our part in working with the Government and other stakeholders to help deliver the targets in the Plan. In the future CLP sees a place for further energy savings and we will play our part in educating customers on how to achieve this.

### **(b) Customer Choice**

The consultation paper suggests that a key driver to introduce competition is that customers want more choice but that may or may not translate into tangible benefits. Choice in terms of electricity can come from new technologies such as renewable energy, electric vehicles and smart meters, which can be offered within the existing SoC framework with tangible benefits.

- ***Choices to generate your own renewable energy*** – We aim to simplify and streamline procedures for approving applications to connect small scale distributed renewable energy schemes to our power grid.
- ***Choices through Smart Meters*** - Smart meters measure consumption at frequent intervals and can communicate both with devices in the home and with the utility. They are key devices that have significant potential to enhance customer experience, help customers manage their electricity demand, as well as offering a greater choice of tariff or service plans. CLP has conducted a smart metering trial and preliminary analysis shows that customers who participated welcomed the opportunity to understand more about their electricity consumption pattern and many took active steps to reduce electricity use.
- ***Choices for transportation*** - One way to offer more choice to customers is to support the further adoption of electric vehicles (EVs) in Hong Kong. A wider adoption of EVs would have net environmental benefits for our city, although there are some challenges in achieving a broad EV charging network in Hong Kong. CLP believes that these difficulties can be addressed and will review with Government the best way to facilitate further EV adoption in Hong Kong.

## **Effective Regulation**

Effective regulation has been a cornerstone of the success of the electricity industry in Hong Kong. The Government should build on what Hong Kong has to ensure the current standards are maintained and that a greener and smarter Hong Kong and greater customer empowerment and choice are properly delivered, whilst maintaining reasonable tariffs and attracting sufficient funds for investment. The Scheme of Control has been an effective regulatory tool for the Government, customers and power companies, delivering a world-class electricity supply at relatively low costs compared to other leading cities.

### **(a) Duration**

CLP thinks the term of the new agreement should be similar to the current one to provide sufficient certainty to continue to attract the necessary capital for the investment required to maintain the world class electricity supply that Hong Kong currently enjoys.

### **(b) Excess Capacity Mechanism**

The current Government controls over reserve margin are effective and proportionate. CLP's reserve margin, currently at around 26%, is well within the range 20% to 35% advised by the International Energy Agency.

### **(c) Information Transparency**

CLP already publishes a wide range of information on sales, fuel and energy costs, operating costs, investment plans, fuel mix, safety, financial, environmental and operating statistics. CLP can consider publishing other information as long as it is appropriate and its ability to negotiate commercial agreements on the best terms on behalf of customers is not undermined.

### **(d) Tariffs**

CLP supports that tariffs must offer a fair deal for customers and must at the same time be reasonable to allow power companies to recover its costs, including a fair return on the long-term and capital-intensive investments. They must also include fuel costs which are volatile, outside the control of power companies and mainly driven by the Government's environmental policy to reduce emissions.

### **(e) Tariff Approvals**

Currently, the Government has full oversight of fuel procurement by power companies, including approval of major fuel procurement contracts. The proposal in the consultation paper suggesting further approval by Executive Council if either the proposed net tariff or basic tariff rate exceeds the approved one in the Development Plan by a certain margin could mean that power companies might not be able to recover the full amount of prudently incurred fuel costs, which they cannot influence or contain. CLP will discuss with the Government how the oversight of fuel purchasing arrangements might be further developed.

**(f) Returns**

CLP is of the view that a fair return for the risks associated with the capital intensive investment in assets that have long lives and are immovable is important to ensure that capital for future investments remain available. CLP considers the current level of permitted return to be appropriate and commensurate with the risks power companies face.

**(g) Incentives and Performance Improvements**

Within the Scheme of Control, there are specific incentives to encourage performance improvement in operational areas. In a new contract CLP thinks it sensible to consider if more can be done, for example, a wider range of incentives that bear down on the things that matter most to customers and offer appropriate rewards. If there were to be a wider range of incentives, then we will need to consider carefully how they interact with each other to ensure that the overall customer experience is improved across the board.

**(h) Competition, Interconnection and Grid Access**

CLP thinks that competition, interconnection with the Mainland power grid and between local power grids, as well as grid access by new players to benefit Hong Kong has yet been proven. Competition in other jurisdictions has delivered mixed outcomes and that it is difficult to conclude that real benefits have resulted. More detailed analysis is needed before any final proposals can be put before the community.

**(i) Delivering Energy Objectives**

The Scheme of Control has successfully delivered the government's four energy objectives for more than 50 years and can continue to evolve to meet changing needs. Additional terms can be considered to cover issues such as a greener and smarter Hong Kong and an enhanced customer experience.

**(j) Striking the Right Balance**

The new arrangements need to strike a proper balance. It is important that tariffs remain reasonable whilst at the same time the commercial terms enable the industry to continue to attract the significant capital required to maintain and enhance the reliability of the power supply, the key concern for our customers.

“Looking ahead, we have to think of the long term as many of our assets last for between 30 and 60 years. The new regulatory arrangements must align customer, Government, investor and community interests as far as possible, whilst adapting to the community's needs and attracting the investment funds necessary to maintain and enhance our electricity system. By building on the current arrangements, we can ensure that we keep in place the solid foundations that will enable us to continue our remarkable success in powering Hong Kong for many years to come,” added Mr Poon.

“CLP has been serving Hong Kong for more than 100 years, not only in providing a highly reliable and cost-effective power supply but also by supporting various community initiatives. As a member of the Hong Kong community, we always bear in mind the long-term interests of Hong Kong’s people and look to create long-term value for our city.”

Full version of CLP’s Response Paper is available at the following link:

<https://www.clp.com.hk/ourcompany/aboutus/resourcecorner/publications/Documents/DEMresponseENG.pdf>

### **About CLP Power Hong Kong Limited**

CLP Power Hong Kong Limited (“CLP Power”) is the Hong Kong utility subsidiary wholly owned by CLP Holdings Limited, a company listed on the Hong Kong Stock Exchange and one of the largest investor-owned power businesses in Asia. CLP Power operates a vertically integrated electricity supply business in Hong Kong, and provides a highly reliable supply of electricity and excellent customer services to 5.8 million people in its supply area.

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