

# South China Morning Post 南華早報

---

## HK Electric, CLP Power face cut in earnings and prospect of competition in longer term

Tuesday, 31 March, 2015, 6:51pm

News › Hong Kong ENVIRONMENT

**Ernest Kao and Denise Tsang**

*Government aims to cut 9.9 per cent return the city's two electricity suppliers currently enjoy and hopes to introduce competition in longer term*

The government wants to slash the permitted return of the city's electricity suppliers to as low as 6 per cent and tighten the process of approving tariffs as it aims to reform the regulatory regime.

Rolling out a public consultation on the development of the electricity market yesterday, environment chief Wong Kam-sing said CLP Power and HK Electric faced a cut in annual returns from the existing 9.99 per cent on their net fixed assets under the 10-year scheme of control agreement, which expires in 2018.

And the controversial idea of importing power from the mainland has been shelved for now.

However, the utilities - both natural monopolies in their own service areas - will be spared competition, at least in the near future. The government will hold discussions with the two firms and conduct joint studies on grid access arrangements after 2018.

"It is unlikely that we would have any new suppliers of sizeable scale either from the mainland or locally in the near term," said Wong.

"To pave the way for Hong Kong to introduce competition in the longer term, we plan to conduct the necessary preparatory work ... such that new suppliers, when available, may participate in the electricity supply market."



Principal Assistant Secretary for the Environment Vyora Yau, Deputy Secretary for the Environment Vincent Liu, Secretary for the Environment Wong Kam-sing (second right) and Principal Assistant Secretary attend the launch of the consultation. Photo: K.Y. Cheng This is the second time in about a decade that the government has taken steps to overhaul the market, which has been dominated by the two suppliers, from power generation to distribution, for more than a century.

CLP serves customers in Kowloon, the New Territories and Lantau; HK Electric caters to Hong Kong Island and Lamma. Their profitability is tied to their spending on electricity assets. They are allowed to earn a 9.99 per cent return on net average fixed assets in the decade to 2018.

Wong said the scheme had worked well, but it could be enhanced in numerous ways, such as by lowering the return rate to as low as 6 per cent and boosting performance through improved incentives and penalties.

Both suppliers said they would co-operate with the government.

CLP said the industry was "hugely capital-intensive and requires long-term investment" and "reasonable return and certainty in the regulatory regime" were key to attracting "sufficient investment to meet the needs of the economy".

HK Electric said: "We must guard against changing the scheme of control for the sake of change, including the critical success factors like the rate of return and the incentive and penalty scheme."

The government said it would "not rule out" legislative changes if consensus was not reached with the utilities.

Dr William Chung Siu-wai, an expert in energy policy at City University, expressed disappointment at the decision not to put a priority on breaking the utilities' dominance.

Democratic Party lawmaker Wu Chi-wai, a member of the Legislative Council's

environmental affairs panel, said the new document was "a refry" of the public consultation in 2005.

The chairman of the Consumer Council, Professor Wong Yuk-shan, said the report failed to provide forward-looking development for the electricity market. He urged the government to raise the proportion of renewables in the mix and step up research on small-scale power generation.

## POWER SHIFT

After 2018:

- Cut CLP Power and HK Electric's permitted annual return to 6pc from 9.9pc now
- Tighten tariff approval process
- Improve incentives/penalties to boost performance
- Study with CLP Power and HK Electric third-party access to their grids, interconnections of grids and segregation of generation, and distribution businesses

### More on this:

[Plan to import power to Hong Kong from mainland China shelved amid reliability concerns](#)

[1]

---

**Source URL (modified on Apr 1st 2015, 7:52am):** <http://www.scmp.com/news/hong-kong/article/1752575/plan-open-hong-kongs-electricity-market-shelved-ahead-consultation>  
**Links**

[1] <http://www.scmp.com/news/hong-kong/article/1753040/mainland-power-boost-plan-shelved-amid-reliability-concerns>