

Public Consultation on the Future Development of the Electricity Market

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30 June 2015

In response to the consultation, I would like to share several observations as follows:

- 1. There are energy policy goals beyond costs and supply reliability. Major limitations exist in the Scheme of Control Agreements. Regulatory changes should be introduced into the electricity market in Hong Kong.**

The Hong Kong government has largely relied on the Scheme of Control Agreements to regulate the technical, economic and environmental performance of the two power utility companies. While the utilities have a relatively good track record in providing a reliable supply of electricity at low prices, there are policy goals which have not been met under the existing regulatory systems. These include the following:

- Achievement of more substantial improvements in emissions reduction and energy efficiency programmes
- Provision of sufficient incentives for energy innovation
- Provision of consumer choices in terms of electricity suppliers, energy products (e.g. renewable energy) and energy services, etc
- Transparency of information (in terms of e.g. fuel costs – the public would like to have access to these information in order to counter-check utilities' claims regarding tariff proposals; in terms of end-user consumer data – so that end-users can better track, monitor and manage their electricity use)

In consideration of the ineffectiveness of the existing SCAs in meeting these policy goals, the SCAs should be revised to better accommodate particularly the social and environmental expectations of the general public.

2. What changes/ improvements do we want to see:

There are at least three important areas where changes are needed related to the Hong Kong electricity market. These include:

(i) Tariffs.

Tariffs can be designed to achieve a broader range of objectives that go beyond affordability. Tariff changes can be introduced, for example, to better reflect the cost of generation. Tariff changes like this can open up opportunities for the development of demand response programmes, where the aggregate impact of the collective energy efficiency actions from individual end-users in residential, commercial and industrial sectors may contribute to a substantial reduction in energy consumption (and hence emissions reduction) and shifting peak load (and hence achieve supplier's cost saving through, for example, postponing investment in new plants).

(ii) Utilities' incentives.

The current SCAs are a traditional way of regulating the power market that link a utilities' revenue with capital investments, and have tended to reinforce the lock-in effects of established energy technologies (i.e. fossil-fuel based energy options and nuclear power). The Government can introduce changes in the regulatory regime to address these utilities' disincentives to energy efficiency investments. International experiences suggest that new incentive mechanisms, e.g. decoupling, can be established to stimulate risk-averse utilities to invest in asset innovation for energy efficiency measures and smart meters rather than expanding existing assets.

(iii) Access to information.

Information related to fuel costs and consumption should be made much more accessible. While privacy issues need to be addressed, full reports (as well as technical reports) on energy-related studies conducted by the Government and the utilities should be made as accessible as possible to the public.

3. There are a variety of possible regulatory changes which can be introduced into the local electricity market. We need much more effective approaches for engaging stakeholders in order to make informed energy decisions collectively in regard to the electricity market future.

It is important to note that electricity market reforms have been introduced in different forms. These vary in scope and depth across countries and have resulted in different outcomes. Status quo, moderate regulatory changes (e.g. introducing decoupling mechanisms to refine the existing SCAs) as well as radical changes (major market reforms) will be associated with different sets of benefits, costs, risks (e.g. risks of inaction) and trade-offs. Comparing, evaluating and making informed decisions on alternative electricity market reform options is a matter that is highly data intensive (and hence require expert knowledge) while individuals' value judgements are also important (e.g. making trade-offs between costs and reliability). Energy consultation exercises in Hong Kong do not, however, have a good track record in effectively promoting constructive dialogues among stakeholders. In fact, in some cases, bad energy consultations appear to intensify public distrust of the Government and the utilities. More effective engagement approaches should be adopted to facilitate information sharing, dialogues, reasoned debates and public reflections related to the future of our electricity market in Hong Kong.

Thank you very much for your kind attention. Should you have any enquiries, please do feel free to contact me at 3411 5941 (daphnemah@hkbu.edu.hk).

Sincerely yours,

Daphne Mah