



# Searching for New Directions

A Study of Hong Kong  
Electricity Market

EXECUTIVE SUMMARY



## Executive Summary

### About the Study

1. For many years the electricity market of Hong Kong has been regulated by the Scheme of Control Agreements (SCAs) signed between the Hong Kong Government and the two power companies, namely, the CLP Power Hong Kong Limited (CLP) and the Hongkong Electric Company Limited (HEC) to provide electricity services to consumers living in Kowloon and New Territories by CLP, and Hong Kong Island by HEC. The energy policy objectives of the Hong Kong Government have been to ensure that the energy needs of the community are met safely, reliably, efficiently and at reasonable prices, while minimising the environmental impact of electricity generation. It has expressed the intention to introduce competition upon the expiry of SCAs by 2018 if the requisite market conditions are present, to transform the market of two regulated monopolies.
2. Subsequently the Hong Kong Government released the consultation paper 'Planning Ahead for a Better Fuel Mix – Future Fuel Mix for Electricity Generation' (the Environment Bureau consultation paper) in March 2014 as a first step to invite the market to present views on the desirable fuel mix structure of Hong Kong and to deliberate on the future regulatory regime in 2015.
3. In view of the fact that electricity is a crucial utility service and the future regulatory regime will pose significant implications for consumers, the Consumer Council (the Council) engaged Consumers International (CI), the global federation of consumer organisations, to form an expert group to look into the international experience of electricity regulatory reform in major markets and its implications for consumers. Furthermore, the study also highlights areas of concerns and opportunities that the Hong Kong Government should take into account in the coming regulatory review, and aims to pave the way for a more structured discussion.
4. Apart from desktop research and literature review on international developments from around the world, particularly from Australia, the United States, Mainland China, the United Kingdom and elsewhere in Europe, the Council together with the expert group engaged in May 2014 in a forum, a wide range of stakeholders in Hong Kong, including the professional groups and industry associations, the power companies, the environmental bodies as well as the Hong Kong Government to listen to their views on the current regulatory regime and other key aspects of concern. Despite the very extensive engagement, the Council and the expert group faced limitations in accessing

commercially sensitive information for more in-depth analysis. Therefore, suggestions drawn from this study serve to offer the Council's views on policy directions, but not to propose an ideal or the best regulatory regime model and implementation roadmap.

5. Lessons learnt from international electricity market reform show that there is no perfect model that could address the (sometimes conflicting) objectives of reliability, affordability and cleanliness of energy, without ultimately the needs of a conscious trade-off in policy decisions. Having said that, for the interests of Hong Kong consumers, it is essential to design a regulatory framework that has a much more rigorous focus on consumer welfare and consumer participation as compared with the former review in 2005. Furthermore, this report also discusses on areas which, in the opinion of the Council, requires close attention specifically supply side possibilities, demand side interaction, energy efficiency, policies for disadvantaged consumers, regulation and sustainability.
6. In this report, the Council has sought to consider three principal issues: market liberalisation, sustainability and regulatory development with special emphasis on the protection of low-income consumers. The Council sincerely hopes that the steps taken would be appreciated by all stakeholders and Hong Kong consumers at large, and looks forward to having a constructive, professional and collaborative discussion on the way forward to advise the Hong Kong Government for the most suitable outcome on electricity regulatory reform for Hong Kong.

## **Key Findings and Suggestions**

### **A Gradual and Progressive Reform**

***Suggestion 1 – There is a need to change the regulatory system of the Hong Kong electricity market but it should be carried out in a gradual and incremental way ensuring that the strengths of the old system are not lost and new objectives are met. Furthermore, there are trade-offs involved in meeting the objectives of reliability, affordability and environmental sustainability. It is suggested that the sector has to be viewed as a whole and should not be compartmentalised into discrete issues.***

7. Hong Kong electricity regulatory system, based on the traditional regulated monopoly structure, has provided consumers with affordable and outstandingly reliable electricity supplies. This is a considerable achievement. By contrast, research from various jurisdictions shows that results with the competitive model have been mixed and sometimes poor, particularly at retail level. A particular and repeated failing with the

competitive model has arisen from attempts to transplant whole structures from countries perceived as having been successful, to other countries, with little recognition of local conditions, resources, priorities, political and cultural traditions.

8. Some experts advised that it would be unwise to abandon the existing model in favour of an unproven and uncertain alternative. This is not to say the existing model cannot be improved or that it will not need to be adapted to meet future challenges, but that change should be incremental and gradual with an emphasis on ensuring that the strengths of the existing system are not lost.
9. The Council opines that a better and more balanced regulatory regime is needed. There are broad reasons for this view. Firstly, the current regulatory regime is not flexible enough to adapt to the new environmental policies, which need to focus on emission reduction over the next 30 years. Secondly, the scheme is not fair to consumers in that the two power companies are allowed to earn a high risk-free permitted rate of return (RoR) on their assets and to transfer to consumers the business risks associated with fuel price fluctuations, operational cost and forecasting error in relation to electricity demand. Further, the current Scheme of Control (SoC) may not provide adequate incentives for power companies to devote their efforts to exploring future development and applications of renewable energy to contribute choices for consumers and to the wider benefits to the environment.
10. Even if the SoC were totally unsatisfactory from this exercise, it would not appear to be legally possible to institute radical short-term change. The processes and time periods built into the SCAs are likely to be enforceable by the owners and there are built-in compensation arrangements should the Hong Kong Government adversely affect the interests of the companies.
11. In addition to the 'traditional' objectives of affordability and reliability long supported by the Council, there is a third pillar of energy policy, sustainability, which is increasingly important as the need to combat climate change assumes greater importance. Energy policy has always involved trade-offs between objectives, for example, greater reliability generally comes at a cost, but meeting sustainability goals as well will make these dilemmas sharper. The working assumption must be that meeting sustainability goals and perhaps increasing world fossil fuel prices will continue to raise the cost of power.
12. The current reform process appears to be based on a fragmented approach, dealing with issues sequentially with, for example, the 'fuel mix' as the first issue to be reviewed

by the Hong Kong Government. While this appears to make the task more manageable by dividing it into discrete areas, the issues cannot be compartmentalised in this way. Choices on the fuel mix will have implications, for example, for affordability and environmental impacts and coherent policies can only emerge from a holistic approach.

## Market Liberalisation

***Suggestion 2 – Lessons learnt from overseas markets under review indicate that the results of liberalisation were commonly disappointing as compared with the theory, due to reconsolidation of market players, imbalance in bargaining power, malpractices in selling and high switching costs for consumers. For Hong Kong, a degree of liberalisation of the generation market may open a range of opportunities, for example, access to renewables and natural gas, rather better than a drive for retail competition.***

13. Three major phenomena observed subsequent to the liberalisation of overseas markets under review are:
  - i. Unbundled markets tend to ‘re-bundle’ if left to their own devices; furthermore, they may do so in a competitively damaging way by consolidating generation and retail supply;
  - ii. Retail competition imposes additional costs on consumers and is prone to complexity leading to consumer error so that many consumers end up with the ‘wrong’ deal; and
  - iii. Liberalisation elsewhere has conferred more benefits upon commercial consumers than on domestic consumers.
14. This syndrome of market reconsolidation is partly because of the intrinsically uncompetitive nature of electricity, which is an essential product of great technical complexity, cannot be stored and requires supply and demand to be reconciled simultaneously through networks that are natural monopolies. If the experience of other countries has not been promising in this regard, then that is likely to be even less the case in Hong Kong as a result of the limited possibilities for competition in this relatively small and geographically constrained market.
15. The signs are not encouraging regarding the scope for retail competition, which has shown severe flaws in overseas markets where it has been tried for domestic

households. Small markets like Hong Kong could be even more vulnerable to such defects. Elsewhere, high proportions of consumers (as much as half of low income domestic consumers switching retail suppliers following bad advice from salespeople) have been found to make switching errors, thus acting against their own interests. Furthermore, even those consumers who make the right decision for them are imposing costs on the system, for the cost of setting up switching operations is very high.

16. In liberalised markets, the onset of greater freedom for commercial consumers to switch suppliers has been advantageous to them. The effect has been to rebalance cost allocation between corporate customers (such as industry and commerce) and domestic households, to the detriment of the latter. This is not to say there is no scope for competition in the sector. Around the world, the greater gains from competition have come within the generation sub-sector where competition long predates liberalisation and was implicit in the traditional public sector 'merit order' systems. It could also bring benefits within innovative sectors such as renewables, where new entrants are sought, however, regulatory adjustments need to be made to enable market access in this regard.

### **Sustainability**

17. The Hong Kong Government seeks to exert influence over the energy mix as it signals its interest in moving towards a more open market. The Environment Bureau consultation paper, to which the Council has responded, set out two highly specific options, one to import more electricity through purchase from the Mainland power grid and the second to use more natural gas for local generation. The Council concluded that: 'neither option stands as the best possible platform for energy policy to proceed in Hong Kong' and asks for a wider range of possibilities to be considered. What are these possibilities? They encompass both supply side measures and demand side management.

### ***Supply side – use of natural gas for power generation***

***Suggestion 3 – In connection with liberalising the market, it is suggested that the Hong Kong Government investigates the feasibility and economic viability of broadening the access of Liquefied Natural Gas (LNG) terminal or natural gas pipelines for fuelling new small-scale generation.***

18. Use of natural gas as a power station fuel has grown significantly in the past decade, bringing environmental benefits and increasing diversity of energy sources. This has

been recognised by the Environment Bureau consultation paper. However, unlike many other developed economies, the use of natural gas apart from power generation remains negligible in Hong Kong. In fact, many developed countries such as the UK, Netherlands and Denmark, have been using natural gas for a much wider range of applications than just as a power station fuel, including direct use by consumers for cooking and water heating, and small-scale co-generation by users, all at lower cost.

19. In fact, Hong Kong is one of the few jurisdictions still to use town gas (a mixture of hydrogen, carbon monoxide and methane) without capitalising on its existing network to broaden up the deployment of natural gas in the city. Natural gas could also be used as a fuel for small-scale electricity generation for large buildings with use of the 'waste heat', for example, to provide hot water. This would provide a useful addition to generating capacity at high efficiency with benefits to the users.
20. Comments from the incumbent player indicated implementation difficulties and economic unviability to convert town gas into natural gas for direct use by consumers due to the distinct characteristics of people living in high-rise buildings and the cost to consumers for changing the gas appliances. However, the possibilities of enabling commercial small-scale generation have not been explored. In fact, based on the conclusions of the report of the Feasibility Study on Introducing a Common Carrier System for Gas Supply in Hong Kong released in 1997, it was technically viable to convert the existing Towngas network to natural gas network and the introduction of natural gas into Hong Kong was best managed by a market based development programme, with third party access offered. Unfortunately the recommendations were not taken forward due to the uncertainty of securing economic and stable supply of natural gas. Given its rapid increases in the global reserves, presence of more natural gas pipelines connecting to Hong Kong, and technological advancement in small-scale electricity generation, it would be worth considering to conduct a feasibility study to look into the viability for enabling small-scale generation.
21. To increase plant efficiencies and to reduce emissions of greenhouse gases, the gas-fired plants in Hong Kong, which used older technology may consider upgrading to the latest design of combined cycle gas generation.

#### ***Supply side – use of renewables***

***Suggestion 4 – Enabling measures should be taken to test the scope and cost of renewables. This will determine whether there is scope for a large renewables contribution to Hong Kong's electricity mix and will allow, if needed, an efficient local***

***supply industry to emerge. Experience from overseas markets often indicates more scope for renewables and at lower cost than initially anticipated, so the potential for Hong Kong should be further explored.***

22. One of the most important options for reducing emissions of greenhouse gases from power generation is a major increase in use of renewable technologies. Each country has its own unique set of resources; there is no universal recipe for successful and cost-effective expansion of use of renewables. The view of both the Hong Kong Government and the utilities is that the scope for renewables is small, perhaps of the order of 1-3% of electricity supply. However, overseas experience shows there are rapidly rising targets, like Germany targeting a 20% market share for renewables by 2020.
23. In studying international experience, in particular the European Union (EU), with the development of renewable energy there is no disguising that it has got off to a difficult start and public realisation is only gradually dawning that, in the short term at least, transition to renewables will mean costs for consumers in the form of higher prices, over and above the underlying forces already moving in that direction.
24. It is clear that if a government wants companies to invest in technologies or fuel sources that are not the cheapest available, it will have to compromise the market by finding a way to reduce or remove the exposure of that asset to the market. Just throwing the promotion of low carbon fuel sources into the mix of the regulatory process on top of measures to promote service wide competition does not resolve this problem, it simply passes the dilemma on to regulators. This has happened in several jurisdictions with predictable confusion resulting. So there is no obvious policy option to move towards cleaner energy from other jurisdictions that can easily be transplanted into Hong Kong. The Council believes, however, that a wide range of approaches can be effective if well designed.
25. Despite specific setbacks, there are positive lessons from experience in other countries. Firstly, if opportunities for renewables to enter the market are created, the scope tends to be far more than expected and at lower cost than forecast. Secondly, large traditional utilities are often not the most effective at deploying renewables in an efficient way. Thirdly, the cost curve for renewables is on a strong downward trend as new technology options are emerging.
26. It is therefore important that the scope for renewables be tested using measures that encourage their emergence. This might be done through 'Feed-in Tariffs' (FITs) under which renewable generators are guaranteed to be able to sell their output at a fixed

- real price, or by capacity auctions, under which a given amount of capacity is made available and the lowest bids necessary to meet this amount are given long-term fixed price contracts. The initial prices will tend to be high, but should fall as the local industry for renewables matures. FITs in Germany provide clear evidence for this worldwide trend including in particular China, where FITs have proven to be successful.
27. Setting a mandated fuel mix may be too rigid an approach if applied fuel by fuel, when there is so much uncertainty about future prices, technology availabilities and policy requirements. Experience in other countries suggests different models have their strengths and weaknesses and their success depends on how well designed they are.
  28. Furthermore, other benefits may follow as a matter of course. For example, a generic renewable obligation might reduce the need for detailed regulation of particulate matter in the fuel mix; such problems would become more self-correcting as the overall renewable proportion rises.
  29. It is likely that the most useful resources for Hong Kong will be solar photovoltaic, wind and biomass. If installation on Mainland China is included as an option, other resources could make a significant contribution. Moving forward, Hong Kong could build on the considerable work already undertaken by both electricity companies to determine whether the renewables including wind power might be an outcome of the current fuel mix policy setting.

### ***Supply side – other options***

***Suggestion 5 – Strong national policy and inter-governmental collaboration may clear the uncertainties from importing electricity from China. However, the potential advantages from newly planned nuclear energy are far from clear in price terms given the uncertainties around the evolving technology.***

30. One option proposed under the Environment Bureau consultation paper is to purchase electricity from the Mainland power grid i.e. importing electricity from Southern China. There is no doubt that the rapid development in Guangdong has also driven the rapid increase in energy demand which would thus be competing with Hong Kong on electricity generated. Although natural gas and nuclear is heavily used to meet environmental targets, fossil fuels will continue to be the leading source of the region's electricity generation and installed capacity. Therefore, there are uncertainties if cleaner and cheaper fuel could be imported sustainably for Hong Kong. Having said that, the outcome is always subject to national policy and inter-governmental collaboration,

and thus, this option should not be left out while Hong Kong reforms its structure to meet demand in future.

31. Nuclear power is a 'low-carbon' generation source (it leads to lower emissions of greenhouse gas than fossil fuels) and therefore should be considered when discussing climate change issues. It brings with it, its own set of environmental issues that need to be factored into the discussion. While Hong Kong has been realising the benefits from Daya Bay Nuclear Investment, safety concerns with nuclear power translate inevitably into higher costs for new development, which have ultimately to be borne by the consumer. The decision whether to try to expand Hong Kong's use of nuclear power is one that falls under the remit of the Hong Kong Government if it wants to determine the fuel mix. The Council is not arguing for or against utilising of the existing installed nuclear energy, but any decision to commission more new nuclear capacity should be based on a thorough evaluation of its cost and availability and the environmental issues raised by the nuclear option.

#### ***Demand side – energy efficiency***

***Suggestion 6 – A much stronger energy efficiency effort is likely to be a 'no-regrets' policy providing reduced environmental impacts and improving affordability. This may well also improve security of supply and uphold the existing standards as a result of reducing demand, especially at peak times.***

32. The security of supply in Hong Kong is at world-leading levels as failure of the electricity system could potentially be catastrophic. However, upholding this high level of supply security by incumbents means cost to consumers, which could in fact be achieved at a lower cost through market reform. The existing plant margin (sometimes it is called reserve margin), which is the amount of capacity kept in operation over and above the maximum demand in order to cover for plant breakdowns and unexpectedly high demand, is about 45%. Although it is gradually reducing with Government's measures, it is highly unlikely that reducing this to about 25% would have any measurable impact on security of supply even if idle capacity would be reduced with market competition.
33. Competitive market measures could be taken to opt for greater use of 'demand side response' to meet peaks in demand. This would involve giving users financial incentives to reduce their demand at peak times, for example, by reducing the air-conditioning load – a particular burden in Hong Kong. The savings from reducing the amount of plant that has to be kept in reserve to meet peak demands could be shared between the specific consumers involved and consumers in general. Such measures are relevant to

broader sustainability issues as they reduce overall consumption and may free up revenue for use on energy saving measures.

34. The cheapest energy can be that which is not used. Those ‘negawatts’ can be unlocked by energy efficiency measures. There is considerable scope to increase the extent of measures to improve the efficiency of electricity use. For domestic consumers, this would include incentives to choose energy efficient appliances, such as lighting and fridges; while for commercial consumers, there is also scope for use of more efficient equipment. There is likely to be considerable scope to improve the fabric of buildings through better insulation and double-glazing, reducing the heating and cooling demand load. The most cost-effective measures are likely to be for new buildings through ensuring that stringent energy efficiency standards are imposed. Increased energy efficiency measures will have the double benefit of reducing electricity consumption and therefore environmental impacts as well as helping ensure power supplies remain affordable despite rising real prices.

### **Regulatory Development**

***Suggestion 7 – The regulatory system needs to be opened up to greater public participation and significantly strengthened so it can meet the demands and expectations that a reformed Hong Kong electricity sector would stimulate.***

35. The Council is considering the necessary changes to the regulatory regime to achieve the objectives of enhanced consumer welfare in terms of safety, reliability and affordability. It aims for the regulatory machinery to supervise the integration of the currently distinct geographical markets of Hong Kong Island on the one hand and Kowloon and the New Territories on the other. It also seeks clarification of how mandatory demand side management would work.
36. The existing method of regulation and the 10-yearly SCAs, must take credit for the high standards of affordability and reliability that the Hong Kong electricity industry achieves. However, it has been a long concern in the market for the high RoR it allows the companies and for not being more open and representative. The policy areas outlined above will place a much stronger demand on the regulatory system so given the current SCAs will expire in 2018, a thorough regulatory review coupled with the setting of a roadmap for reform is a timely and opportune exercise.
37. Several times in the past, the Council has taken an interest in the future of electricity/energy regulation, but each time there has been no major change. In 2003,

the Energy Advisory Committee reviewed some aspects of RoR on investment but left the SCAs much as before with some reduction in the RoRs. Rather than a scheme for providing a guaranteed RoR on investments, there needs to be a bigger step with wider review and clearer disclosure of the costs of alternative forms of provision of energy services. Modern forms of economic regulation are moving away from the somewhat circular debates about price cap or RoR (reviewed in Chapter 2) and now aim to reward efficiency and cost cutting while also allowing for investment in future needs, such as the development of renewables.

38. There is no clearly superior model that can be transplanted to Hong Kong, but the characteristics of a good system are well known. They include maintaining transparency of corporate information and regulatory analysis, due process in regulation, a fair balance between producers and consumers and between different classes of consumers, and ensuring dominant parties do not exploit their positions.
39. The Council also suggests that economic regulation of the two vertically integrated monopoly networks in particular needs reviewing with a clear statement of future goals and the establishment of operational independence for regulators and full powers to make rules that best serve the interests of consumers, without distorting constraints on the use of regulatory discretion.

#### ***Access to networks – a critical enabler***

***Suggestion 8 – Control of the network should be reviewed to ensure that new generators are able to access the network on the same terms as the incumbents. The cost-effectiveness of a further interconnector between the two systems for Hong Kong should be investigated as a contribution both to greater efficiency and to introducing wholesale market competition.***

40. Greater use of renewables and small-scale generation will require these new sources to have fair access to the network at non-discriminatory prices. The possibility of purchase from Mainland China is also an option that requires network access, although, as already indicated, the potential could be constrained by burgeoning demand in Guangdong. Provisions will also be needed for free standing small scale-generations to be able to sell their surplus power to the local network for a reasonable price.
41. With gradual and progressive liberalisation of the generation market, the Council can well envisage that network access in one form or the other has to take place to enable competition. Experience elsewhere suggests incumbent utilities are reluctant to grant

access to their networks because they perceive this as a competitive threat. This problem has been addressed by stronger regulation to prevent incumbents freezing out new entrants and by 'unbundling the networks' both to reduce the scope and incentives for keeping new entrants out. At one extreme, unbundling might involve no more than requiring the incumbent to keep separate accounts for their network business and at the other, it might require the network to be sold off as an entirely separate company. An alternative option is to take control (rather than ownership) of the network away from the incumbent utility and put it in the hands of an independent system operator (ISO).

42. Creating a wholesale electricity market could be done on a free market basis, as has been done throughout the EU. However, design of efficient wholesale markets has proved difficult, with many markets subject to manipulation and gaming. A less risky alternative would be a more cooperative approach whereby the savings from ensuring that the cheapest sources of power were used were then shared between the two major companies and with consumers. As with security of supply discussed above, these savings could bring advantages in terms of sustainability.

### ***Interconnections***

43. Market liberalisation opens up an opportunity for improved interconnection within Hong Kong. The Hong Kong electricity system comprises two effectively separate parts, Hong Kong Island and Kowloon & the New Territories with a connection only sufficient to provide some degree of security of supply. A much stronger interconnection between the two systems would allow the generation mix to be optimised across both systems, so if cheap generation was available, unused in, say, Kowloon, the power could be transferred to Hong Kong Island, reducing costs for consumers in both systems.
44. So, expanding the interconnector is about improving economic efficiency by being able to reduce reserves while retaining reliability. And, it is also an important step towards wholesale market competition with possibilities as stated. An independent study is required to estimate the actual costs of the interconnector because that depends on the technology used and the decisions on route. The companies may well be apprehensive about such a development as it might limit their monopoly power and perturb their working arrangements as has been the case in Germany and Australia for example as supply from renewable sources has rapidly developed.

### ***Protection for low-income consumers***

***Suggestion 9 – As the energy cost is expected to rise, a holistic approach in reviewing the current protection for low-income consumers is necessary to ensure that they can afford the power they need to protect their well-being. There is also an urgent need to quantify and locate the extent of ‘fuel poverty’ in Hong Kong, and to identify gaps in the current approaches (reliance on rising block tariffs and social security benefits) and to formulate mitigation measures such as energy efficiency programmes targeted at low-income consumers to bring them electricity services at lowest cost.***

45. There is a need to consider the distributional impact of achieving environmental objectives, with particular emphasis on the impact on low-income consumers. The Environment Bureau consultation paper foresees a doubling of generation costs leading to a potential increase of 60% in prices charged to small consumers, and more for large consumers. This would undoubtedly cause affordability issues for low-income households. Of particular concern are low-income households living in multi-occupancy dwellings, and households in fuel poverty, i.e. that spend more than 10% of their income on energy with subsequent severe impact on their health as they ration their consumption even under extreme heat or cold weather conditions.
46. Although there are some tariffs to help low-income households, that provide low prices for the initial tranche of consumption, it is not clear how effective and how well targeted these tariffs are. For example, multi-occupancy dwellings may use large amounts of power split between several households who would not benefit from these tariffs.
47. That raises the question of the other conventional form of help to low income households, namely the benefits system. The evidence suggests that there are take-up problems in Hong Kong concerning entitlement to benefit not being exercised by consumers and these problems echo those found in many countries around the world. This in turn suggests that reliance on income support mechanisms can only be partially successful in mitigating fuel poverty.
48. Given the limitations then of a tariff based approach and an income support approach, it is suggested that one measure to deal with this issue should undoubtedly be a well-targeted energy efficiency programme so that low-income households can receive the energy service they need but for a lower consumption of power and cost. For example, the fact that most low income families live in public rented housing (according to the Hong Kong Commission on Poverty), seems therefore to represent a positive targeting of public resources. This in turn, suggests that programmes related not just to income but to building improvement and energy efficiency in this sector of the housing market would be well targeted.

### ***The regulatory body***

***Suggestion 10 – For proper planning and implementation of the long-term regulatory reform of the electricity sector in Hong Kong, it is of top priority for the Hong Kong Government to establish a full-fledged energy sector regulator which needs to have the ‘critical mass’ to perform in relation to the structure and size of the industry, and the principles of transparency and consumer representation should be upheld.***

49. The current SCAs have a remaining tenure of less than 4 years before their expiry in 2018. It should be a reasonable expectation for all stakeholders concerned, particularly the consumers, that the Hong Kong Government would review, plan and design a proper and sustainable regulatory model that could fulfil the objectives of delivering safe, reliable, affordable and green electricity services for Hong Kong.
50. As the development progresses, the Council would see the necessary formation of a full-fledged energy sector regulator to tackle the complexity of the issues involved, and in particular to meet the future challenge of competing objectives of the Hong Kong Government’s energy policy.
51. Operating under the principles of transparency and impartiality, such a regulator in its design shall mirror the scale and structure of the industry. When designing the system, care must be taken not to create one that is too small to be effective. For example, it might be desirable to consider consolidating relevant functional units under the Hong Kong Government system to form a larger regulatory body that could have stronger empowerment and a career structure that would be more likely to retain the best talents.
52. There is an important distinction to be drawn between representation of consumers as individuals and as a collectivity. The former involves taking complaints and settling disputes between individual account holders and service providers. The latter involves representation of the consumer interest in deciding policy or making regulatory decisions such as setting limits on tariffs or RoR. The Council holds the view that both functions are important and a proper mechanism should be put in place in the new regulatory body to enable both so that one feeds the other. If not housed in the same body, there needs to be a mechanism for complaints to inform policy.

***The full report can be downloaded from the website of the Consumer Council ([www.consumer.org.hk](http://www.consumer.org.hk)).***



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