

MESSAGE

Reliable supply of energy is an essential ingredient for economic prosperity. We will continue to rely on the proven expertise of the private sector in meeting our energy requirements, while monitoring the sector closely to ensure that consumers have reliable and efficient supplies of energy at reasonable prices. In 2000, we will focus on improving further the reliability of electricity supply and considering issues relating to additional interconnection and competition within the electricity supply sector.

A handwritten signature in black ink, appearing to read 'Stephen Ip', written in a cursive style.

(Stephen Ip)

Secretary for Economic Services

ENERGY

Our Policy Objective is to ensure the provision of sufficient, reliable and reasonably priced supplies of energy for Hong Kong and to promote the economical and safe use of energy.

Our target this year in pursuing this Policy Objective is that reliability of electricity and gas supply should exceed 99.8%.

Progress Made

In 1998, reliability of electricity and gas supply has been maintained by the companies concerned at a level exceeding 99.8%. We have completed the first Interim Review of the Scheme of Control Agreements with the two power companies and implemented improvements which would bring benefit to consumers. We have made good progress on a number of safety-related initiatives including the introduction of new legislation to protect electricity supply lines, stepping up inspections of electrical installations in buildings and publishing a consultation paper on electricity supply standards.

KEY RESULT AREAS (KRAs)

To ensure that this Policy Objective can be achieved, we must deliver results in a number of key areas, that is, we must –

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Identify energy supply needs and resources

The Government relies on the private sector to supply energy to meet market requirements. As all of Hong Kong's energy supplies originate from external sources, it is important that our sources of fuel and energy are well diversified and that arrangements are in place to tide us over short term disruptions to supply.

The Government will promote the use of natural gas as a fuel for power generation and other uses, where feasible and economically viable. Natural gas is an environmentally cleaner fuel than coal or oil.

Progress Made

The indicators used to measure progress in this area were the ability of the private sector to maintain both continuous supplies of fuel and energy and adequate reserves of essential fuels, to satisfy markets requirements, maintain diverse sources of supply and have in place the necessary infrastructure to maintain secure energy supply. The reliability of electricity and town gas supply in 1998 was maintained at over 99.8%. There was no significant disruption in the supply of major fuels.

To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative *	Target #	Present Position +
To consider Hongkong Electric's proposal for additional generating capacity <i>(Economic Services Bureau (ESB))</i>	To decide whether to approve the proposal in 1999 <i>(1998)</i>	Proposal being examined. <i>(Action in Progress: On Schedule)</i>
To review the deferral programme for Units 7 and 8 at Black Point Power Station <i>(ESB)</i>	To complete the review in end-1999 <i>(1998)</i>	Review in progress and expected to be completed by the end of 1999. <i>(Action in Progress: On Schedule)</i>

* the bracketed information denotes the agency with lead responsibility for the initiative

the bracketed information denotes the year in which the target was set

+ the bracketed information denotes the status of the target

Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicators –

Indicator	1999 Target
Ability of power and gas companies to maintain reliable supply to satisfy market requirements	To achieve reliability of supply over 99.8%
Ability of power and gas companies to secure diverse sources of fuel	To maintain sources of supply from different countries

We will undertake the following initiative to deliver results in this area –

Initiative	1999 Target
To study the feasibility and potential for further application and use of alternative forms of power generation, including solar and wind power, in Hong Kong and the means of promoting and implementing those with potential <i>(ESB and Electrical and Mechanical Services Department)</i>	To commence the study in 2000

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Administer regulatory arrangements for the energy sector

The Government has Scheme of Control Agreements with the power companies which limit their rates of return and provide for monitoring of their electricity-related financial affairs, to protect the interests of the consumer.

The Government also has an Information and Consultation Agreement with the sole supplier of towngas to increase the transparency of the company's operations and its justification for tariff increases. The agreed arrangements include disclosure of additional corporate information and briefing of the Energy Advisory Committee and the legislature.

These agreements enable the Government to monitor the performance of the power and towngas companies to ensure that they operate efficiently and that their tariffs are reasonable.

Progress Made

The indicators used to measure progress in this area were the timely completion of tariff, audit and other reviews conducted in accordance with the terms of the Scheme of Control Agreements and timely compliance of the towngas supplier with the Information and Consultation Agreement. We have, in consultation with the power companies, completed the relevant tariff, auditing and interim reviews. Agreed modifications to the Schemes of Control Agreements took effect from October 1998 for China Light and Power and January 1999 for Hongkong Electric. The towngas supplier published additional corporate information for 1998 in compliance with the Information and Consultation Agreement.

To achieve results in this area, the following initiative has been undertaken in the past years –

Initiative	Target	Present Position
To conduct an interim review of the Scheme of Control Agreements with the power companies and to implement modifications that may be agreed with the power companies <i>(Economic Services Bureau (ESB))</i>	To complete the interim review and implement agreed modifications in 1999 <i>(1998 and 1997)</i>	Interim review completed. Agreed modifications took effect from October 1998 for China Light and Power and January 1999 for Hongkong Electric. <i>(Action Completed)</i>

Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicators –

Indicator	1999 Target
Completion of tariff, audit and other reviews in accordance with the terms of the Scheme of Control Agreements	100% completion
Compliance of the town gas supplier with the Information and Consultation Agreement	100% compliance

We will undertake the following initiative to deliver results in this area –

Initiative	1999 Target
To complete discussion on extending the Information and Consultation Agreement with The Hong Kong and China Gas Company Limited and implement modifications where appropriate (ESB)	To complete discussion and implement the new agreement by April 2000

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Ensure energy needs are met efficiently and safely

Proposals by energy suppliers to build major new facilities are examined by the Government with a view to ensuring that they are justified by forecast demand, will meet various regulatory requirements and function efficiently. The performance of the power and town gas companies is monitored to ensure that they operate efficiently.

Safety standards for electricity and gas are enforced through the Electricity Ordinance and the Gas Safety Ordinance. Among other things, the ordinances cover the registration of production facilities, electrical workers and contractors and gas installation contractors, electrical installations, electrical products and tubing standards and safe distribution and use of electricity and gas.

Progress Made

The indicators used to measure progress in this area were the timely assessment of the extent to which any proposed new facilities meet economic, financial and technical requirements; the timely approval of any additional plant that may be justified and the extent to which electricity and gas supply companies comply with statutory safety requirements for the operation and maintenance of energy-related facilities and equipment. We have agreed with the town gas supplier an accounting framework for identification of town gas transportation costs in connection with future consideration of the common carrier gas distribution concept when additional sources of natural gas become available. We commissioned a study of interconnection and competition in the electricity supply sector. This was due to be completed by the end of 1998 but unforeseen complexities over technical issues have delayed its completion and publication. As regards safety, we stepped up inspections of electrical installations in buildings, published a consultation paper on proposals to update the legislation on electricity supply standards and introduced a Bill to pave the way for introduction of regulations to protect electricity supply lines from damage during works. Progress in these areas is generally on target.

To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative	Target	Present Position
<p>To follow up the feasibility study of introducing a common carrier system for gas supply in Hong Kong by establishing an accounting framework for identification of the gas transportation costs of the sole town gas supplier</p> <p><i>(Economic Services Bureau (ESB))</i></p>	<p>To establish the accounting framework in mid-1999</p> <p><i>(1998)</i></p>	<p>Accounting framework agreed with the town gas supplier.</p> <p><i>(Action Completed)</i></p>
<p>To conduct and follow up the study of interconnection and competition in the electricity supply sector in Hong Kong</p> <p><i>(ESB)</i></p>	<ul style="list-style-type: none"> ● To publish a policy statement in 1999 <i>(1998)</i> ● To complete the study by end-1998 <i>(1997)</i> 	<ul style="list-style-type: none"> ● Policy statement to be formulated after publication of the consultancy study report. <i>(Action in Progress: On Schedule)</i> ● The consultancy study was completed in the third quarter of 1999. <i>(Action Completed)</i>
<p>To step up inspection of electrical installations in buildings to ensure compliance with the relevant safety requirements</p> <p><i>(Electrical and Mechanical Services Department (EMSD))</i></p>	<p>To inspect some 4 000 buildings by end-1999, and serve warning letters on owners of buildings who have not complied with the safety requirements</p> <p><i>(1998)</i></p>	<p>As at end-September 1999, some 3 400 buildings have been inspected and some 21 000 warning letters have been served (the latter figure exceeds the former because individual flat owners are served if there is no owners' corporation).</p> <p><i>(Action in Progress: On Schedule)</i></p>
<p>To prepare new legislation in 1998 to control electricity supply standards</p> <p><i>(ESB)</i></p>	<ul style="list-style-type: none"> ● To issue consultation paper on the proposed new legislation for public consultation in October 1998 ● To start preparing new legislation in December 1998 <i>(1997)</i> 	<ul style="list-style-type: none"> ● A paper on the proposed new legislation was issued in March 1999 for public consultation. <i>(Action Completed)</i> ● The review of electricity supply standards in the Electricity Supply Regulations has been completed. Drafting instructions for new legislation are being prepared. <i>(Action in Progress: Behind Schedule)</i>

Initiative	Target	Present Position
To introduce new legislation to deter third parties from damaging underground electricity cables and overhead electricity wires (ESB)	<ul style="list-style-type: none"> To introduce the new Electricity Supply Lines (Protection) Regulation by 2000 (1997) 	<ul style="list-style-type: none"> The new Regulation is being examined by the Bills Committee examining the Electricity (Amendment) Bill 1999. <i>(Action in Progress: On Schedule)</i>
	<ul style="list-style-type: none"> To introduce the enabling Bill in 1998 (1997) 	<ul style="list-style-type: none"> The Electricity (Amendment) Bill 1999 was introduced into the Legislative Council in January 1999. <i>(Action Completed)</i>

Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicators –

Indicator	1999 Target
Assessment and approval or otherwise of proposed new facilities	Timely approval of facilities that may be justified
Conduct of inspections and enforcement action	Compliance with safety requirements in the Electricity Ordinance and Gas Safety Ordinance

We will undertake the following initiative to deliver results in this area –

Initiative	1999 Target
To conduct further studies required as follow up to the consultancy study on interconnection and competition in the electricity supply sector (ESB and E&MSD)	To commence detailed studies in 2000-2001

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Promote demand side management

The efficient use and conservation of energy is promoted through demand side management programmes covering lighting, appliances and electrical plant in buildings. The objective is to reduce longer term growth in demand for electricity.

Progress Made

The indicator used to measure progress in this area was the amount of savings achieved through demand side management by power companies. Implementation of the demand side management programmes by the power companies is under review in the light of views expressed by Members of the Legislative Council.

To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative	Target	Present Position
To institute monitoring of power companies' implementation of demand side management programmes <i>(Economic Services Bureau (ESB))</i>	Power companies to achieve agreed savings of generating capacity by the end of their first set of demand side management programmes in 2001 <i>(1998)</i>	Position on demand side management programmes by power companies under review in the light of views expressed by Members of the Legislative Council. <i>(Action in Progress: Under Review)</i>
To negotiate with the power companies to enter into formal agreements on implementation of full scale demand side management programmes in 1998 <i>(ESB)</i>	To commence negotiations in 1997 <i>(1997)</i>	Agreements on implementation of demand side management programmes signed with Hongkong Electric and China Light & Power in November 1997 and February 1998 respectively. The proposed programmes and implementation arrangements were considered by the Legislative Council Panel on Economic Services in May 1999. The proposals are under review in the light of the Panel's comments. <i>(Action in Progress: Under Review)</i>

Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicator –

Indicator	1999 Target
Demand side management measures by the power companies	To encourage the power companies to do more. Exact target to be set on completion of review