A Practical Proposal for
the Regulation of the Post-2008 Hong Kong Electricity Industry
Based on Foreign Experiences of Market Reform in Recent Years

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A thesis submitted in partial fulfillment of the requirements
for the degree of
Master of Philosophy

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February 2006
Abstract

In the past two decades, several countries, including the UK, Australia and the US, undertook the process of electricity market reform or restructuring\(^1\). These reforms in general consisted of the unbundling, privatization, deregulation, marketization, and transformation of the existing regulatory regime\(^2\). Restructuring the electricity industry gained momentum in other countries in the 1990s, and became a world trend.

Presently, Hong Kong’s electricity industry is supplied by two privately owned vertically integrated power companies, China Light and Power Co. Ltd. (CLP) and Hongkong Electric Co. Ltd. (HEC) through Scheme of Control (SOC) agreements that are due to expire in 2008. Even though the SOC has provided a safe and reliable service at rates that are comparable to those in similar economies to Hong Kong, recent dissatisfaction with the SOC has led to an intense debate on the reformation of Hong Kong’s electricity industry and the potential replacement of the SOC with an alternative regulatory scheme and mode of operation.

The aims of this thesis are to find out the most feasible and effective reform blueprint for the development of Hong Kong’s electricity industry for the post-2008 period. With a debate on how to reform the industry, this study is going to review the performance of Hong Kong’s electricity industry, analyse the foreign experiences on reforming their electricity industries and evaluate whether Hong Kong should and could introduce deregulation into the industry.

According to the findings of this research, Hong Kong’s electricity industry has been performing very well under the regulation of the SOC, a reliable and secure

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\(1\) Here, reform and restructuring mean the transformation of the operation mode of the electricity industry, including the process of privatization (which may not occur in some cases), deregulation, and marketization (the introduction of a competitive or market mechanism).

\(2\) Traditionally, the electricity industry is vertically integrated, which means that a single firm is responsible for the whole process of electricity supply, from generation to the delivery of power to end-users.
supply of power has been provided, meeting the need of society. The major complaints against the industry and its present regulatory framework are high permitted return to the two companies, over-expansion and the resultant high tariff. After studying the foreign experiences on deregulating the electricity industry, one can conclude that deregulating the electricity industry could be very costly and risky.

Therefore, the most feasible option to achieve better performance in the Hong Kong electricity industry is to remedy the shortcomings of the SOC by resetting the permitted rate of return, strengthening the excess-capacity mechanism, thus lowering the tariff rate. To deregulate the industry would be too complicated to implement within the next few years, and would require the solution of many issues, such as stranded costs, property rights, the accountability of power dispatch, and the improvement and maintenance of the power networks. All of these issues must be smoothed out before any move towards deregulation is made.
## Table of Content

### Chapter 1 – Introduction to the Study  
1. Background  
   A. Basic Information of Hong Kong  
      1. Geographic Information  
      2. Economy Information  
   B. Energy Sector of Hong Kong  
2. Research Objective  
3. Scope of Study  
4. Research Methodology  
5. Literature Review  
6. Significance of the Study  
7. Organization

### Chapter 2 – Hong Kong’s Electricity Industry  
1. The Present Electricity Industry  
   A. Role of Electricity  
   B. Electricity Production, Consumption, and Projected Demand  
   C. The Two Power Companies  
2. The Current Regulatory Regime: the Scheme of Control  
   A. Objectives and Mechanism of the Scheme  
      1. Duration  
      2. Permitted Rate of Return  
      3. Development Fund  
      4. Tariff Setting Process  
   B. Criticism of the SOC  
      1. Excessively High Returns  
      2. Over-expansion  
      3. High Tariff Levels  
      4. Discouraging Demand Side Management  
      5. Lack of Consumer Choice  
   C. Actual Performance of the SOC  
      1. Service Reliability and Quality  
      2. Tariff Stability and Affordability  
      3. Environmental Concerns  
3. Conclusion
Chapter 3 – Foreign Experiences on Electricity Industry Reform

I. Market-based Transformation
   A. Basic Elements of the Transformation
   B. Operation Structure of a Market-based Model

II. Case Studies
   A. CALIFORNIA
      1. Organizational Structure Before Restructuring
      2. Driving Force for the Restructuring
      3. Public Reactions to the High Electricity Tariffs
      4. Implementation Procedures and the New Structure
      5. The California Power Crisis
         i. Three Major Interrelated Problems
            a. High Wholesale Electricity Prices
            b. Intermittent Power Shortage
            c. Three IOUs Faced Rigorous Financial Problem
         ii. The Causes of the California Power Crisis
            a. Flawed Market Rules
            b. Exogenous Factors
      6. Implication for the Restructuring of the Electricity Industry

   B. THE UNITED KINGDOM
      1. The Electricity Industry Before Restructuring
      2. The Driving Force for the Reform
      3. The Reform Procedures and the New Structure
      4. Assessment of the U.K. Electricity Market Reform
         i. Better Service Quality
         ii. Lower Electricity Tariffs
         iii. Increase in Environmental-friendly Generation Capacity
         iv. Increase in Labor Productivity
         v. Market Manipulation
         vi. Sacrificing Small and Poor Consumers
      5. Implications

   C. AUSTRALIA
      1. Organizational Structure Before the Reform
      2. Momentum of the Reform
      3. The New Structure
      4. Effects of the Reform
         i. Electricity Price Levels
         ii. Increased Investment in the Electricity Industry
iii. Employment Level of the Electricity Industry 77
iv. Environmental Performance 78
v. Supply Reliability 79
5. Implications 80
D. CANADA 81
1. Electricity Industry Reform in Alberta 82
   i. Reform Background and Objectives for the Alberta Electricity industry 82
   ii. Evolution of the Reform 83
   iii. The New Structure 83
   iv. Initial Consequences of the Reform 85
      a. Increase in Installed Capacity 85
      b. Increase in Clean Fuel in Electricity Generation 86
      c. More Choice for Consumers 87
      d. Price Fluctuation and Market Manipulation 87
      e. Poor Price Signal and Utility Losses 89
   v. Remarks on Alberta’s Electricity Industry Reform 89
2. Electricity Industry Reform in Ontario 91
   i. Before the Reform 91
   ii. Breaking Point 92
   iii. Objectives of the Reform 94
   iv. The New Structure – Regulation and Operation 94
   v. Preliminary Effects of the Restructuring – Price Spikes and Price Caps 96
   vi. Implications – an Internal Contradiction 97
E. ISRAEL 99
1. Problems with the Israeli Electricity Industry 100
2. The Israeli Government Reform Plan 100
3. Analysis of the Plan 101
4. Recommendations and Amendment of the Plan 103
5. Remarks 104

Chapter 4: Is Deregulation a Feasible Option? 105
I. Objectives for the Change 105
II. The Most Important Reform Goals 106
   A. Ensuring Supply Reliability 106
   B. Addressing the Major Criticisms of the SOC 109
   C. Protecting the Environment 109
III. Is Market-based Transformation a Practical Option? 109
   A. Brief Assessment of Market-based Transformation Overseas 110
      1. Strengths of Market-based Transformation 110
      2. Obstacles to the Implementation of Market-based Transformation 110
         i. Price Volatility 111
         ii. Endangering Supply Reliability and Long-term Investment 111
         iii. Market manipulation 113
         iv. Difficulty in Lowering Tariffs 115
         v. Environmental Impact 116
   B. Implications – A Risky and Costly Attempt 118
IV. Evaluation of Proposals for Marketization 120
V. Conclusion 121

Chapter 5: A Practical Approach to Reform – Refining the SOC 123
I. The SOC – A Rate of Return Regulation 124
   A. Mechanism 124
   B. Advantages of Rate of Return Regulations 125
   C. General Problems of Rate of Return Regulation 126
      1. Efficiency Problems 126
      2. Investment Problems 128
      3. Review Problems 129
   D. Hong Kong’s Rate of Return Regulation 130
   E. Summary of the Contributions of the SOC 131
II. Proposed Amendments to the SOC Agreement 133
   A. Re-determining the Base Rate and Permitted Rate of Return 133
   B. Re-setting the Review Period 135
   C. Improving the Tariff Setting Regulation and Process 136
III. Government Stance 137
IV. Conclusion 139

Appendix 1: Integrated Hong Kong-southern China Electricity Market 144

Bibliography 148

Curriculum Vitae 163