

Mr Vincent Liu  
Deputy Secretary for the Environment  
Hong Kong Special Administrative Region  
Tamar, Hong Kong  
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Dear Mr Liu,

**Scheme of Control Agreement**  
**Implementation of Provisions on Renewable Energy and Energy Efficiency**  
**Views from**  
**Business Environment Council Limited 商界環保協會有限公司**

As you may know, over the last 25 years, BEC has played a leading role in advocating the business case for environmental excellence in Hong Kong. Our members are committed to actively engage with the HKSAR Government on a range of issues relating to the environment and sustainability. Our ongoing work reflects the increasing interest in Hong Kong's business and finance world in supporting environmental protection and a low carbon economy.

We are a membership organisation with over 200 members spanning major listed and multi-national companies as well as small and medium-sized enterprises, from a wide range of sectors. We also have affiliate members from trade associations, NGOs, and academic institutes. Views put forward in this submission represent the views of BEC as a whole, and may not necessarily correlate with the views of individual members.

Our preferred approach is to work with the Government and provide a sounding-board in developing policy solutions and implementation plans. We welcome your interest in a stronger collaborative approach towards stakeholders and look forward to working with your administration in this way.

We are aware that the detail as to various provisions in the Scheme of Control Agreement are to be decided. This submission sets out our views, on the issues we have identified, developed through discussion with two of our advisory groups to support the Government in finding practical solutions.



## General Position

We refer you to our [submission on the CE's October 2017 Policy Address](#) for our broad views on renewable energy and energy efficiency. Please see recommendations 3 and 4 in particular. In addition, please note our [submission of June 2015 on the Scheme of Control Agreement](#).

## Renewable Energy

1. As to the rates of the Feed-in-Tariff ("FiT"), we affirm the importance of a rate that gives investors a reasonable payback period. Of course the rates should not be so high as to encourage entirely inefficient investment in renewables, though to kickstart the process of investment, costs of early adopters will be higher and require a higher rate<sup>1</sup>. We note that a consultancy study is underway to determine appropriate rates that reflect capital and installation costs as well as power generated. We support this approach. In general terms we take the view that the rates are best calculated for example as to rooftop solar, by taking into account the project lifetime of PV panels and deterioration at about 0.5% a year, and providing a payback of half this discounted period of time. The project lifetime is complex in Hong Kong's circumstances as we understand that performance guarantees are around 25 years, product guarantees around 10 years, and the FiT itself will only be guaranteed until the end of the Scheme of Control Agreement (a maximum of 15 years but shorter as the contractual term progresses).
2. We prefer simplicity in terms of the scheme, but recognise the importance of some variation in rates with lower rates for larger facilities, but not so much lower as to discourage what may be the more cost-effective installations which the market would tend towards. A simple system would have around 3 categories: small (village houses, office building rooftops, and schools), medium (warehousing, exhibition facilities, and large public buildings) with large facilities being those over 1MW in capacity<sup>2</sup>. For larger facilities, in due course as part of the periodic review, we would expect to see consideration of reverse auction systems as is happening in other countries.
3. Policy consistency and continuity are always important for businesses to plan and invest. So we support ensuring a fixed rate once an installation is in place, subject only to inflationary increases if determined to be appropriate in a review, and also only carrying out substantial reviews of the FiT rates periodically say every 2-3 years rather than

<sup>1</sup> We have noted that the actual rates vary significantly in East Asia and beyond from \$4.8 MOP in Macau for small installations to substantially smaller rates in other cities.

<sup>2</sup> It is noted that under Schedule 5, paragraph 12 of the Agreements, facilities of 1mWh will be considered for inclusion in the FiT Scheme on a case by case basis.





annually. However we recognise that where there are significant changes in installation or capital costs or if it is found the FiT is insufficient to support investment, earlier reviews would be justifiable<sup>3</sup>. These reviews do need to be minimized and sufficient lead in time given as to changes in rates to avoid excessive uncertainty.

4. As to reducing the FiT rate year on year for new investments, though ordinarily this would seem justified by falling costs, this is complex in the Hong Kong context. We understand that the contractual nature of the regulatory system means there is no guarantee of a FiT after the expiry of the term of the SCAs in 2033, so the position is different from that of many other jurisdictions. Having declining FiT rates may encourage early investment but such investment may not be possible in some cases because for example complex engineering studies may be needed. This may mean that after 7-8 years the FiT has much less benefit in driving investment in RE generation capacity. For this reason, a stable FiT might be more appropriate for Hong Kong unless the Government can identify an alternative way of preserving the incentive value of the FiT over the duration of the contractual term.
5. Another question that arises is as to the range of technologies that are eligible for the FiT. We take the view that the rates should be calculated for the most suitable technologies – solar, off-shore wind, and waste to energy. To encourage the local development of other technologies such as tidal and wave power but without creating an excessive cost burden, we support making the FiT available for other technologies without restriction but at an equivalent rate to that set for an appropriate mature technology e.g. small scale rooftop solar. The rates for these newer technologies should also be kept under review and it may be that other sources of funds can also support those technologies. In this way, Hong Kong should be able to develop technology or at least the expertise around implementation and installation, which it can make use of in the region and beyond. Development of capacity and technology locally has been one of the benefits of the FiT in other countries.
6. Specific issues arise as to waste to energy plants, of which there are some currently in development or in the design stage and largely due to be funded by the Government. It is important that the Government optimizes those designs not only for management of waste but also for energy. However on balance for mega Government projects (say capacity of above 200t of waste a day), we recognise that eligibility for the FiT may put too much of

<sup>3</sup> See UK scheme <https://www.ofgem.gov.uk/environmental-programmes/fit/fit-tariff-rates>



a burden on the electricity consumer and is therefore not appropriate. It would be more appropriate for the Government and energy companies to agree suitable arrangements on a case by case basis. For smaller scale waste to energy plants which we expect may still be over 1MW generating capacity and therefore not automatically eligible for the FiT<sup>4</sup> we take the view that they should receive the FiT and we would suggest that principles be established for the rates to be paid. The key principle we suggest is that the rate reflects the ultimate aim to reduce greenhouse gas emissions, relating therefore to the overall/net carbon intensity of the plant. The following specific factors are in our view relevant to this: (a) the feedstock – biogenic or mixed, with higher rates for low/zero carbon facilities such as anaerobic digestion facilities and lower rates for mixed waste schemes; (b) the efficiency of energy generation of the plant; (c) avoided GHG emissions related to the specific use of the output; and (d) other reductions achieved for example through reduced transportation emissions.

7. As to whether the public and private sector should have the benefit of the FiT more generally (i.e. beyond waste to energy), in our view the FiT can usefully help incentivize investment in both the public and private sectors. This would mean that the FiT is not only available for businesses and large homes but also for schools, hospitals, libraries, sports centres etc. which could as a result increase provision for the community with these extra sources of income. Semi-governmental bodies like HKIA and MTRC, which in any event operate as private sector bodies, seeking returns on investment, would also have a better business case for investment that could lead to significant renewable energy capacity. They should also be eligible. For large scale Government bureau/department projects, we suggest the difference in rules for facilities over 1MW generating capacity should be used by the Government to ensure that the FiT does not lead to a substantial shift of sources of public funds for such investment from current taxation streams to the electricity consumer. For example, large scale facilities like along highways and reservoirs may be better supported by Government funds.
8. A further question that arises is the availability of the FiT to those who have already installed or will install RE capacity before the FiT comes into force. As a matter of principle, we take the view that early adopters should not lose out and it is also important to avoid a situation of no investment pending the FiT to come into force. The FiT will also incentivize them to properly maintain their installations.

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<sup>4</sup> We expect these installations may be constructed by the private sector or semi-governmental bodies (e.g. HKIA).





## Energy Efficiency

9. The question of eligibility for these funds by both households and business arises. In our view considering that the purpose is to support energy savings, the general principle that should be applied is that of directing these funds towards those projects which deliver the larger energy savings. We note however that the Community Energy Saving Fund is also intended to help disadvantaged customers/groups who should therefore also receive a share of those funds. For larger businesses at least, we would expect to see match-funding to ensure that funds are used in a cost-effective manner. Entirely excluding larger facilities from eligibility may mean that we do not get the best energy saving outcomes for the money spent.
10. As to which technologies are eligible, we suggest the application of the following 3 principles:
- The focus should be on achieving cost-effective energy savings for the investment, in other words, striving to achieve the most savings with the least costs.
  - The principle of additionality should also be applied. The funds should support investments that would not have been made in the absence of the incentive. So for example in situations where LEDs have very short payback periods and are already being installed, it is not necessary for such projects to obtain the benefit of the funds.
  - Avoiding other harm, such as excessive lighting or waste such as where LEDs would be thrown out or damaged as a result of a refit of premises or a reinstatement clause.

## Other

11. We affirm a point we have made in the past about ensuring cross-bureau/departmental co-ordination so that barriers to installation of renewable energy and energy saving technologies are identified and addressed collectively by the Government.

If there are any queries as to this submission, please contact me at [adamkoo@bec.org.hk](mailto:adamkoo@bec.org.hk).

Yours sincerely,



Adam Koo

CEO, Business Environment Council Limited

