



Room 924, 9th floor, Murray Building, Garden Road, Central, Hong Kong
Tel: 2848 2606 Fax: 2530 5264
香港中環花園道美利大廈9樓924室 • 電話：2848 2606 傳真機：2530 5264

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for information

ELECTRICITY : DEMAND SIDE MANAGEMENT

Introduction

This paper explains to Members the concept of “demand side management” (DSB) as regards the use of electricity, the way it operates and the benefits it would bring to both the electricity consumers and the power companies.

Demand Side Management

2 DSM requires the power companies to make serious efforts to encourage people to use less electricity. However, the companies are in business to sell electricity.

3 If people use a lot less electricity - by using more efficient lights and appliances or simply economising - we can put off installing additional generators (which in turn helps to minimise the environmental impact of using coal as fuel for power generation).

4 The power companies earn a return on their investment in generators. So it is only reasonable that they should not be worse off because we asked them to encourage people to save electricity.

5 The DSM Agreements between the Government and Hongkong Electric and China Light & Power oblige the companies to pursue DSM and enable them to earn a return comparable to what they would have earned if they had added generating capacity instead of persuading people to save electricity.

6 The companies will not be able to earn full advantage from the scheme unless they achieve a minimum level of performance (initially, 50% of planned savings). This is intended to drive the companies to encourage people to use less electricity.

7 Consumers will benefit because the companies' DSM programmes will offer them high efficiency lighting, air-conditioners and refrigerators at a rebated price and such appliances cost less to run.

8 There will be implementation costs and these will be passed on to consumers. We expect that the additional costs to consumers will not exceed 2% of the tariff that would have applied had there been no DSM.

9 Savings should build up steadily once DSM programmes get under way in 1998. The savings to be achieved will depend upon the companies' DSM programmes and performance, which are subject to the Government's approval and monitoring, respectively. But we do expect that, in the longer term, DSM will help to put off installation of new generators and keep electricity bills down.

10 Initially, the power companies intend to concentrate on rebate programmes for energy efficient lighting and appliances and special programmes tailored for the commercial and manufacturing sectors.

11 Later, when DSM has become an established part of the energy scene in Hong Kong, we hope that other companies specialising in energy-saving services will enter the market and promote more sophisticated DSM programmes.

Advice Sought

12 Members are requested to note the content of this paper.

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