

For Information  
on 25 October 2004

## **Legislative Council Panel on Economic Services**

### **Natural Gas as a Feedstock for Production of Towngas**

#### **Introduction**

This paper informs Members of Hong Kong and China Gas's (HKCG) plan to introduce natural gas as a feedstock for production of town gas in 2006.

#### **Background**

2. At present, naphtha is used as the feedstock for production of town gas in Hong Kong. HKCG has recently entered into an agreement to purchase natural gas from the Shenzhen Liquefied Natural Gas (LNG) Terminal, when it is commissioned in 2006, for use as an alternate feedstock to naphtha in the production of town gas.

#### **HKCG's Plan**

3. The HKCG will elaborate on their plan and implications for consumers at the Panel meeting on 25 October 2004.

*(a) With regard to gas supply*

4. Pursuant to the 25-year 'take or pay' agreement with the Shenzhen LNG Terminal operator, HKCG will take natural gas that has been re-gasified from some 0.33 million tonnes of LNG per year. In quantitative terms, this 'in-take' represents about 10% of the Shenzhen (Phase 1) LNG Terminal throughput and about 60% of HKCG's current annual consumption of naphtha for production of town gas.

*(b) With regard to infrastructural works*

5. To cater for the change in the use of feedstock, HKCG will –
- (i) for taking delivery of the natural gas, install two 34 km submarine pipelines linking the LNG Terminal with the Tai Po Gas Plant;
  - (ii) install a gas pipeline from Shatin to deliver natural gas to its Ma Tau Kok Gas Plant; and
  - (iii) modify the eight existing production units at Tai Po Gas Plant so that the units will have dual feedstock capability and modify Ma Tau Kok Gas Plant. Both Gas Plants will continue to produce the type of town gas currently distributed in Hong Kong.

Pursuant to the Information and Consultation Agreement (ICA), the HKCG will provide and discuss with the Government details of the costs of the capital works involved.

*(c) With regard to tariff*

6. HKCG has indicated that the use of natural gas as a feedstock should not have an impact on the basic tariff. Nevertheless, since the natural gas supply will be covered by a 25-year term contract, prices should be more stable and, in the long run, cheaper than naphtha, especially when crude price stays high. In this connection, HKCG will pass on any net savings from feedstock costs, after deducting the capital investment and the financial returns on the supply infrastructure and modifications to its gas production plants, onto consumers via the Fuel Cost Variation mechanism.

**The Administration's View**

7. The objective of the Government's energy policy is to ensure that consumers continue to enjoy reliable and safe supplies of energy at reasonable prices.

8. Diversification in the use of feedstock for town gas production should enhance supply reliability. HKCG has also confirmed that the change in fuel mix will not bring about additional costs to consumers, both in terms

of the town gas supplied or the appliances currently in use. Moreover, replacement of naphtha by natural gas as a feedstock should yield environmental benefits with reduced emissions.

### **Members' Advice**

9. Members are requested to note HKCG's plan to import natural gas from the Shenzhen LNG terminal for use as a feedstock for production of town gas.

Economic Development and Labour Bureau  
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