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The Conservancy Association

會址：香港九龍吳松街 191-197 號突破中心 9 樓

Add.: 9/F Breakthrough Centre, 191-197 Woosung Street, Kowloon, Hong Kong.

電話 Tel.: (852) 2728 6781 傳真 Fax: (852) 2728 5538

電子郵箱 E-mail address: cahk@conservancy.org.hk

網址 Website:

www.conservancy.org.hk

Response to Future Development of Electricity Market Consultation (Stage II)

The Conservancy Association

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Hong Kong is facing severe challenges with worsening air quality. The structure and performance of the future electricity industry are crucial. We believe that the current proposals in the Consultation document have fallen short of setting out a sustainable energy policy to reverse the current deteriorating trend and to safeguard public interests.

1. Transparency and Accountability in a new regulatory framework

In order to safeguard public interests, it is essential that the new scheme be operated with a much-enhanced level of transparency so to allow public scrutiny of the utility companies' performance. All proposals for capital investments, relevant needs analysis, feasibility studies and sustainability assessments should be released to the public before decisions are made by the Administration.

We support the establishment of an independent, stakeholder-led regulatory authority to develop sustainable energy policy, oversee market reform, review environmental performance and decide upon tariffs based on a public hearing process. It is essential that the public be provided with not only access to information but also the means to participate in decision-making within the agreed framework with the market players. Prior to the establishment of a independent authority, the operation of the Energy Advisory Committee should be elevated to the level similar to the Advisory Committee on the Environment through more broad-based stakeholder representation, higher transparency and enhanced authority.

2. Grid Access in favour of Renewable Energy

It was proposed in the consultation paper to make the grid connection more accessible to the Renewable Energy (RE) Users by the establishment of official technical codes. We believe,

however, instead of the government acting merely as a facilitator, it should take responsibility in setting the technical codes and grid access charges for RE suppliers, with a bias in favour of the latter so as to encourage the development of RE.

Since the bulk of future RE supplies will most probably come from Guangdong, more solid commitment should be extracted from the utility companies regarding interconnection between Hong Kong and Guangdong in the near term. The government should specify that when new electricity supplies become necessary because of increased local demands, new supplies must come from an RE source, whether local or across the border, and allow third parties to bid for the opportunity of providing such supplies with a view to promoting fair competition and achieving best outcome for the public.

3. Emission reduction and Sustainable Energy Policy

As stated in the consultation paper, the Kyoto Protocol was extended to Hong Kong since May 2003 and Hong Kong was committed to reducing greenhouse gases emission, especially carbon dioxide, as far as practicable. In addition, according to the agreement reached with the Guangdong Provincial Government in 2002, four main pollutants, namely, sulphur dioxide, nitrogen oxide, respirable suspended particulates and volatile organic compounds, would be reduced by 40%, 20%, 55% and 55% in 2010, as compared with 1997 levels.

Coal-fired generations are the major contributor of carbon dioxide and sulphur dioxide emission. Therefore, efforts should be made to minimize the impact made by conventional coal-fired generations. We agree that the wider use of LNG would be a practical, though inadequate, option for reduction of greenhouse gases and air pollutant emissions. However, we believe that the selection of sites for CLP's proposed LNG receiving terminal should not be limited only to Hong Kong territory. The government should commence urgent discussions with the Guangdong government and explore the possibility of a joint LNG terminal along the coast of Pearl River Delta. By widening the selection pool, it is likely that a better site may be identified outside of Hong Kong territory that may cause the least environmental damage and safety concerns and that both Hong Kong and Guangdong authorities may find it to be a win-win situation.

In addition, other advanced technologies, such as the Clean Coal Technology (CCT), ought to be accorded with higher priorities with a view to searching for the best available technologies in the medium to long-term.

We are disappointed that the government has not specified any emission targets beyond 2010,

as we believe that clear long-term targets are not only essential for continuous improvement of air quality, but also indispensable for the long-term planning of the utility companies. The government should, as a matter of priority, develop guiding principles for continuous improvement and specify long-term emission targets as part of a sustainable energy policy which should include, inter alia, a fuel mix policy and an energy conservation policy.

4. Energy Conservation and Demand-side Management

The assimilative capacity of Hong Kong's environment, and by extension the Peal River Delta, is already under high stress. The relief of this environmental stress is dependent on whether Hong Kong can develop into a more energy efficient economy. The test is whether we can continue to improve our quality of life without a corresponding increase in energy consumption.

It is therefore important not to consider the development of the electricity market in isolation. However emission-friendly the power produces may become, our only hope of improving air quality in the long term lies with a fundamental shift to sustainable production and sustainable consumption. Dedicated efforts must be made to promote more systemic changes in the economy through either incentives or regulations.

For instance, if the peak electricity demand, which occurs for only a day or two in every year, can be controlled, no new supply facility will be necessary. The success of demand-side management will have significant implication for not only the environment but also the ultimate costs that consumers will have to shoulder through electricity tariffs.

The proposed independent energy authority should be empowered to develop a sustainable energy policy and to implement energy conservation and demand-side management measures. This is an important task which is left largely unattended in the current government set-up, to the detriment of both the environment ant the financial interest of the public.

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