

LegCo Panel on Economic Services
Special meeting on 25 September 2006

List of follow-up actions

Environmental regulation in the future electricity market

Noting the power companies' concern that the proposed measure put forward in the "Stage II Consultation Paper on Future Development of the Electricity Market in Hong Kong" to subject power companies' emission reduction facilities to the lowest rate of return may discourage their investment incentives, the Panel requests the Administration to provide the following information:

- (a) whether such a measure is adopted in the regulatory regimes of overseas jurisdictions. If yes, please provide the relevant details, including the assessment on the effectiveness of the measure in reducing emissions of power plants; and
- (b) other economic measures adopted by overseas jurisdictions to reduce the emissions of power plants.

The Administration's response

(a) In order to reduce emissions of power plants, the Government has imposed emissions caps on the two local power companies when renewing the Specified Process Licences (SPLs) of individual plants and will progressively tighten the caps to meet the 2010 emission reduction targets. The power companies are taking measures including installation of emission reduction facilities and use of cleaner fuels in response to these statutory requirements. It is also the Government's intention to minimise the costs of these facilities to consumers as far as possible and to provide power companies with reasonable investment return. We have therefore proposed to subject power companies' emission reduction facilities to the lowest rate of return. We are not aware of similar arrangement in overseas jurisdictions, but we believe our proposed measure will continue to provide incentives for the power companies to

continue to invest in such facilities to help achieve the emission reduction targets, while lessening at the same time the financial burden on consumers. At the same time, we will ensure effective reduction in emissions through enforcement of the emissions caps stipulated under the SPLs.

(b) To reduce air pollution, regulators all over the world introduce measures deemed appropriate to cater for particular situations. In general, power companies are encouraged to employ the most cost-effective means to improve their environmental performance. Common examples of economic measures adopted in Europe and North America for reducing emissions from polluting sources include non-compliance fees/fines which are payments imposed on polluters who do not comply with environmental requirements/regulations. There are also different types of emissions trading schemes and taxes, charges or fees levied on the basis of the quantity and quality of emissions.

Economic Development and Labour Bureau
Environmental Protection Department
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