

26 March 2007

Mrs Mary Tang  
Legislative Council Secretariat – EA Panel  
3rd floor, Citibank Tower, 3 Garden Road  
Hong Kong

中華電力有限公司  
CLP Power Hong Kong Limited

香港九龍亞皆老街147號  
147 Argyle Street, Kowloon, Hong Kong

電話 Tel (852) 2678 8111  
傳真 Fax (852) 2760 4448  
網址 Website www.clpgroup.com

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Dear Mrs Tang,

**Panel on Environmental Affairs**  
**Emissions Trading Pilot Scheme for Thermal Power Plants in the Pearl River Delta Region**

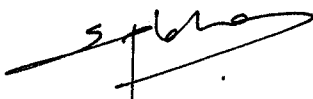
In response to your facsimile dated 8 March 2007 on the captioned subject, we are pleased to set out our comments on the scheme below.

1. CLP welcomes the release of the framework of the pilot emissions trading scheme as a potential option for supporting improvement of air quality in Pearl River Delta Region.
2. Experience of emissions trading in the Chinese Mainland and Asia is relatively new. Thus there is a big challenge in establishing a fair and transparent trading scheme applicable to jurisdictions with differences in legal and institutional systems. We appreciate that, with the co-operation between the governments of Guangdong and the HKSAR, agreement on a common implementation framework for administering a potentially complex trading scheme has been reached. Power companies were consulted via a government-led joint task force and we have contributed ideas for reference by HK Environmental Protection Department to help clarify and improve the practicality of the arrangements proposed. Some of our suggestions have been adopted and we will continue to work closely with relevant bureaux to address remaining issues.
3. While the completion of a framework is a significant milestone, we understand well that a successful scheme depends ultimately on the detailed implementation rules. We have expressed to government that, from a power company's perspective, the statutory requirements under the Specified Process Licences should be clear on the application of the credits purchased or sold and liability for non-performance by the seller. We have suggested a reasonable validity period for the credits to enhance the usefulness of the scheme. We have also continuously stressed the importance of equitable and fair allocation of emissions allowances, across and within individual sectors, so that the responsibility of cleaning the air is shared equitably over a broader base in a practical manner.



4. Development of a new and complex scheme must involve sufficient time and experience for lessons to be learnt. We welcome the voluntary nature of the scheme and urge that appropriate incentives be made available to participants to encourage participation and test the strengths and weaknesses of the scheme.
5. We will continue to monitor emissions trading developments in other parts of the world and work closely with concerned bureaus and the Emissions Trading Management Panel on implementation for the pilot emissions trading scheme.
6. We recognize the urgent need to improve on regional air quality. While a prudent approach is being taken to experiment with an emissions trading mechanism, there is uncertainty with its overall effectiveness at the present stage. Emissions trading in itself would not reduce the region's overall pollution levels. Fundamentally, the region as a whole needs to use energy efficiently, to use clean fuels and to fit industrial facilities with the latest emissions control equipment.
7. Since the early 1990s we have pro-actively improved environmental performance significantly with nuclear power, natural gas and low sulphur coal. Since 2005 we have greatly increased the use of ultra low sulphur coal and a significant reduction of SO<sub>2</sub> emissions has been achieved quickly. Our results and effectiveness is reflected in the statistics which show that between 1990 and 2006 emissions from our power plants have reduced by 50-80% while local demand for electricity has increased by 70%.
8. To further reduce emissions towards the 2010 emissions targets proposed by government, CLP will continue our efforts to promote efficient use of energy, has planned for installation of desuphurization and NO<sub>x</sub> reduction facilities at Castle Peak "B" Power Station and the development of a Liquefied Natural Gas receiving and storage terminal in Hong Kong. This will enable increased gas generation and help sustain the good environmental performance over time while ensuring a reliable supply of electricity to our customers. We believe these initiatives, together with other control measures introduced to other sectors, e.g. transport, will strengthen HKSAR's ability to reduce pollution.
9. We see environmental improvement as an ongoing drive and take it as a responsibility to continue to explore all feasible and sustainable options in future that would be beneficial to the environment as well as our customers.

Yours sincerely,



S.H. Chan  
Planning Director  
CLP Power Hong Kong Limited

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