

For information on
30 June 2008

**Legislative Council
Panel on Environmental Affairs**

Liquefied Natural Gas Receiving Terminal at South Soko Island

PURPOSE

This paper updates Members on the current status of the Liquefied Natural Gas (LNG) Terminal at South Soko Island (Soko) proposed by CLP Power Hong Kong Limited and Castle Peak Power Company Limited (hereafter referred to collectively as CLP).

BACKGROUND

Need for Replacement Gas Supply

2. Since 1996, CLP has been importing natural gas for power generation from the Yacheng 13-1 gas field near Hainan via a 778km submarine pipeline. After conducting re-determination of the Economically Recoverable Reserves of the gas fields with the gas supplier, CLP anticipates that the existing Yacheng 13-1 natural gas field will be depleted by early 2010s. At present, about 30% of CLP's installed capacity is gas-fired. CLP reckons that a replacement gas supply must be in place by end 2013 to ensure supply reliability and achievement of emission caps imposed by the Environmental Protection Department under the Air Pollution Control Ordinance.

3. After an extensive site search and an environmental impact assessment (EIA), CLP concluded that constructing an LNG terminal at Soko would be the best option for obtaining replacement gas supply in terms of programme timing, supply security, operational flexibility and environmental requirements. In August 2006, CLP submitted to the Government a proposal under the Scheme of Control Agreement (SCA), as well as an EIA report under the Environmental Impact Assessment Ordinance (EIAO) for the project. The EIA report was subsequently approved and an environmental permit issued under the EIAO in April 2007.

4. At the Environmental Affairs Panel of the Legislative Council (EA Panel) on 20 July 2007, the Government briefed Members on the EIA report of the CLP's LNG terminal project. Deputations were invited to the meeting. Subsequent to the meeting, the Government provided responses to the deputations' views in September 2007.

Due Diligence

5. The due diligence process on CLP's proposed LNG terminal is still ongoing. No decision has been made by the Government regarding the proposal of CLP to build an LNG terminal project in Hong Kong. Given the concern of the Hong Kong community on the need and justification of the terminal, it is crucial that all aspects of the project are properly examined to ensure that building an LNG terminal in Hong Kong is in the best interest of Hong Kong.

6. With the assistance of a professional energy consultant, the Government is reviewing CLP's proposal. To ensure that the public can continue to enjoy reliable and safe electricity supply at reasonable prices, the Government is examining all relevant factors including the distribution and development of natural gas in the region, the feasibility of supplying gas to Hong Kong from other natural gas/LNG projects in the region, the supply situation of the Yacheng gas field, the forecast of future electricity demand, environmental requirements, estimated expenditure and tariff impacts.

Regulatory Framework

7. In parallel with the due diligence exercise, the Government is examining the regulatory framework for the LNG terminal should it be located in Hong Kong.

8. We believe that the LNG terminal, even if it is to be built and operated by a local power company, may be treated as a gas infrastructure and does not necessarily have to be included as assets under the Scheme of Control (SCA) for the power generation business. A separate regulatory regime, independent of the SCA for the electricity business, may be introduced to cover the LNG terminal as it may provide –

- (a) greater accountability and transparency in operations, cost allocation and tariff setting; and

- (b) ease of access for other terminal users as costs of terminal operation will not get entangled with those for electricity generation. Cross-subsidization can be avoided.

Third Party Access

9. It would not be economical for Hong Kong to build more than one LNG terminal. In line with international practices, it is important to ensure that third party access (TPA) will be provided by the terminal operator through a tolling arrangement whereby they will bear the incremental capital and operating costs.

Statutory Planning and Land Process

10. Siting of an LNG terminal on Soko requires the preparation of an Outline Zoning Plan (OZP) for Soko and a plan under the Foreshore and Seabed Ordinance. We intend to start these statutory planning and land processes shortly.

11. It is expected that the due diligence exercise will take some more time to complete. Similar to the EIA process, the Government must take necessary forward planning by initiating the statutory planning and land processes so as to lose no time in case CLP's proposal is eventually proved to be the best option for Hong Kong in terms of ensuring supply reliability and improving air quality. We wish to emphasize that the commencement of the statutory planning and land processes will be without prejudice to the ongoing due diligence on CLP's proposal and will not have a bearing on whether and when the Government would approve CLP's proposal.

ADVICE SOUGHT

12. Members are invited to note the contents of this paper.

**Environment Bureau
30 June 2008**