

**Letterhead of Friends of the Earth**  
**地球之友的信頭**

October 29, 1998

Office of the Ombudsman  
31/F., Gateway Tower 1  
25 Canton Road  
Tsimshatsui, Kowloon  
Hong Kong

RE: Complaint of maladministration regarding the Economic Services Bureau's management of the Schemes of Control with the electric utilities.

Dear Mr. So,

Friends of the Earth (Hong Kong) submit this complaint of maladministration on the basis that the Economic Services Bureau's management of the electricity Schemes of Control on behalf of Hong Kong consumers has been deficient in being responsible, reasonable, fair, and impartial, as defined by the Office of the Ombudsman.

It should be made clear from the outset that this is not a complaint against the electricity Schemes of Control themselves. The objective of Friends of the Earth (HK) is to address the performance of the Economic Services Bureau in administering the electricity Schemes of Control and in fulfilling its role as the energy policy Bureau of Government.

The intention of Friends of the Earth (Hong Kong) is to raise legitimate concerns that need to be addressed for energy planning in Hong Kong to meet public expectations and to align with Government's own stated development guidelines. Our complaint procedure is intended to reach a better understanding of community priorities in energy planning so that overall performance can improve.

Yours sincerely,

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Mei Ng  
Director

## **1. Executive Summary**

Friends of the Earth (Hong Kong) submit this complaint of maladministration on the basis that the Economic Services Bureau's (hereafter called "ESB") management of the electricity Schemes of Control on behalf of Hong Kong consumers has been deficient in being responsible, reasonable, fair, and impartial, as defined by the Office of the Ombudsman.

### **Not Impartial.**

*On behalf of consumers, ESB has not ensured that priorities are accorded fairly, consistently and with a high degree of transparency.*

1. In resolving the interconnection issue, ESB has shown a lack of judgement in hiring Hong Kong Electric Co.'s consultant to do the Consultancy Study of Interconnection and Competition in the Electricity Supply Sector in Hong Kong, which will cloud the transparency of this critical report with conflict of interest concerns, no matter what the consultant's professional standards may be.

2. ESB's procedure for selecting an independent energy auditor allows the two utilities to recommend candidates, to prepare the Request for Proposals, and to grade the proposals for the auditor position. ESB is effectively allowing the utilities to define the selection process. This is non-transparent procedure for selecting a "Government Energy Auditor" who must be independent.

### **Not Reasonable.**

*On behalf of consumers ESB has not seen to it that their decisions can stand the test of fundamental reasoning and common sense.*

3. ESB is maintaining a separation of supply areas for the electric utilities which is not part of the Schemes of Control nor is it in the Hong Kong consumer's present or long term interest to do so, therefore, ESB has put the interests of utility shareholders ahead of Hong Kong consumers for no justifiable reason.

**Not Reasonable** (continued)

*On behalf of consumers ESB has not seen to it that their decisions can stand the test of fundamental reasoning and common sense.*

4. ESB's presentation of DSM studies to the Legislative Council, Government Departments, and the Advisory Council on the Environment has been incoherent, which has made sensible decision-making impossible.

**Not Fair.**

*ESB has not given reasons for its decisions and explained the likely effects on consumers.*

5. ESB's presentation of Burns & Roe's interconnection estimates has been biased and misleading about the consumer impacts of interconnection.

6. The early decommissioning of generating plant by both utilities has become the rule rather than the exception under the Schemes of Control, it is a practice which ESB has not justified as beneficial to consumers.

7. In the DSM Handbook, ESB has stated without valid reasoning that strategic load management programs by the utilities will be delayed until at least their second DSM resource plan (after 2002), although this negatively impacts consumers.

*ESB has not kept consumers informed about the progress of matters of their concern.*

8. Friends of the Earth's (HK) legitimate submission of questions to ESB regarding basic energy data and Government policies has been either ignored or answered in an incomplete and unprofessional manner.

**Not Fair** (continued)

*ESB does not have an internal review system so that adverse decisions can be re-examined by someone not involved in the initial decision making process.*

9. The secrecy which the ESB has accorded to its own and its consultant's basis for demand forecasts is unjustified and has furthermore contributed to unacceptable approval of demand forecasts made by the electric utilities, most notably in the case of China Light and Power Co.'s Black Point expansion plan.

**Not Responsible.**

*Consumers have not been dealt with carefully, by considering all relevant and material facts and factors in the decision making process.*

10. ESB gave no factual basis or study in support of its claim that renewable energy sources had no potential to contribute significantly to meeting Hong Kong's demand growth in the period 1996 to 2005.

*Consumers have not been dealt with sensibly, by maintaining a proper balance between the adverse effects of ESB's decisions on the legitimate rights and interests of the affected persons and the purpose being pursued by taking those decisions...*

11. ESB has too narrow a scope in comparing costs of energy options. Hong Kong people have a legitimate right to be presented with estimates for the impacts to the local economy from different ways of meeting Hong Kong's power demands, particularly as this relates to direct and indirect employment, tariffs, etc.

12. The legitimate interests of Hong Kong people for environmental stewardship by support to international initiatives like the FCCC and APEC energy principles have been unjustifiably and unacceptably marginalised by ESB.

## **2. Background**

### **1.1 Electricity Market in Hong Kong**

Hong Kong's electricity is supplied by the private sector. Two commercial companies, China Light and Power Company Limited (hereafter called "CLP") and Hong Kong Electric Company Limited (hereafter called "HEC"), are the sole suppliers of electricity in the areas they serve. CLP supplies the whole of Kowloon and the New Territories including Lantau and several outlying islands. HEC supplies Hong Kong island and the neighbouring islands of Ap Lei Chau and Lamma.

Both companies are regulated by a Scheme of Control Agreement (hereafter called "SCA") with Government. However, the SCAs are not franchises, nor do they define a supply area for either company or exclude new entrants to the market.

### **1.2 The Scheme of Control Agreements**

Under the SCAs, the power companies are obliged to ensure an adequate, reliable, and efficient supply of electricity at reasonable costs to the consumer. In return, the power companies are permitted rates of return of 13.5% on debt capital and 15% on equity capital. In practice, both utilities have book rates of return that average 20 - 25% due to debt financing practices.

CLP was the initiator of the first SCA which was signed with Government in 1964, while HEC first entered an SCA agreement in 1979. The present SCAs with CLP and HEC came into effect on October 1, 1993 and January 1, 1994, respectively, and both last for 15 years with a review period every five years.

### **1.3 Role of the Economic Services Bureau (ESB)**

Headed by the Secretary for Economic Services, ESB is responsible for developing and recommending Government economic policies, including energy and electricity matters. However, Government continues to operate without a formal energy policy.

To obtain approval for expansion, spending, and tariff levels, the utilities are required to submit development and finance plans to ESB. Based on its own analysis and that of hired private consultants, ESB then makes recommendations to the Executive Council for decision. ESB is therefore responsible for energy policy, and for representing the interests of Hong Kong consumers in the administration of the Schemes of Control with the electric utilities.

### **3. Friends of the Earth's Complaint**

#### **Not Impartial.**

*On behalf of consumers, ESB has not ensured that priorities are accorded fairly, consistently and with a high degree of transparency.*

1. In resolving the interconnection issue, ESB has shown a lack of judgement in hiring Hong Kong Electric Co.'s consultant to do the Consultancy Study of Interconnection and Competition in the Electricity Supply Sector in Hong Kong, which will cloud the transparency of this critical report with conflict of interest concerns, no matter what the consultant's professional standards may be.

#### **Details**

At the meeting of the Executive Council on 5 November 1996 [*Annex A*], it was recommended that a further interconnection study should be done. Eventually the prequalification document for this Consultancy Study of Interconnection and Competition in the Electricity Supply Sector in Hong Kong (hereafter called "the Interconnection Study") was completed by the Electrical and Mechanical Services Department (hereafter called "EMSD") in July 1997 [*Annex D*].

It should be noted that the primary objective of the Interconnection Study was to provide a response to public pressure and concern on the issue [*Annex D, para. 4*]. ESB did not initiate the study out of particular interest to itself, having preferred to adopt the viewpoints of Burns and Roe on interconnection, and having historically administrated the SCAs as *de facto* monopolies, despite a lack of legal basis to do so.

Thus Friends of the Earth (HK) submit that transparency is particularly important to the Interconnection Study since its function is as much for public confidence as it is an exercise in research. Under these circumstances it was highly inappropriate for the Interconnection Study to have been awarded to a consultant that was also working for HEC in promoting the expansion of its generating capacity.

This allegation has nothing to do with the professional standards of the particular consultant since consultants must routinely address conflicting interests. However, ESB must have realised that the primary objective of the Interconnection Study would be compromised since in the public eye, a conflict of interest cannot be ruled out.

If any public confidence is to be restored to the Interconnection Study, ESB needs to at least show conclusively that no other consultants who bid for the study were equally competent as the one chosen by Government.

#### **References**

Annexes A, D.

### **3. Friends of the Earth's Complaint**

#### **Not Impartial.**

*On behalf of consumers, ESB has not ensured that priorities are accorded fairly, consistently and with a high degree of transparency.*

2. ESB's procedure for selecting an independent energy auditor allows the two utilities to recommend candidates, to prepare the Request for Proposals, and to grade the proposals for the auditor position. ESB is effectively allowing the utilities to define the selection process. This is non-transparent procedure for selecting a "Government Energy Auditor" who must be independent.

#### **Details**

ESB has been negotiating with both electric utilities on the subject of Demand Side Management (hereafter called "DSM") for several years. ESB's framework for DSM has involved an agreement on minimum requirements, incentives, and auditing with the electric utilities as set out in the DSM Handbook [Annex E]. ESB is still negotiating actual DSM Resource Plans with both electric utilities.

It is critical for the success of any DSM programs to have an efficient and independent auditing process. However, ESB's procedure for selecting a Government DSM Auditor as outlined in the DSM Handbook [*Annex E, sec. 2.1.1*] raises two serious questions.

First, by allowing the two utilities to recommend candidates, to prepare the Request for Proposals, and to grade the proposals for the Auditor position, ESB is effectively allowing the utilities to define the selection process. This is non-transparent procedure for selecting a Government Energy Auditor who must be independent in the eyes of all stakeholders, particularly to consumers who will pay for energy programs.

Second, DSM auditing has not been a demonstrated skill of the ESB to date. It must be questioned whether the ESB has the competence to select a DSM auditor on behalf of consumers. Reliance on the electric utilities for the selection process suggests that ESB has reached its limit of competence in dealing with increasingly specialised energy issues without the benefit of a properly staffed Energy Department.

Friends of the Earth (HK) submit that ESB's negotiation of DSM Resource Plans with the utilities and the validity of the procedures in the DSM Handbook must be reviewed for technical competence and transparency. As a start, if the EMSD Energy Efficiency Office is not competent to be a DSM auditor, how can ESB and EMSD be responsibly negotiating DSM resource plans with the electric utilities on behalf of consumers?

If left unchanged, we submit that ESB's lack of expertise in the increasingly complex field of DSM will create a downward spiral of transparency in the administration of energy issues for Hong Kong consumers. An Energy Department is required now.

#### **References**

Annex E.

### **3. Friends of the Earth's Complaint**

#### **Not Reasonable.**

*On behalf of consumers ESB has not seen to it that their decisions can stand the test of fundamental reasoning and common sense.*

3. ESB is maintaining a separation of supply areas for the electric utilities which is not part of the Schemes of Control nor is it in the Hong Kong consumer's present or long term interest to do so, therefore, ESB has put the interests of utility shareholders ahead of Hong Kong consumers for no justifiable reason.

#### **Details**

As summarised by EMSD, the SCAs between Government and CLP/HEC do not specify any exclusive rights to supply electricity [*Annex D, para. 2.2.1*]. However, ESB's administration of the SCAs has been to maintain *de facto* monopolies by each utility in defined service areas [*Annex L, para. (a)*].

Such an approach may have been appropriate in the past when Hong Kong experienced double digit economic growth and power demand. At that time it may have been more important to ensure that utilities had the best incentives to expand their capacity rather than to worry about system design.

However, Hong Kong's energy future will not resemble its past. Technology has changed, resource security has changed, the relationship of productivity to energy use has changed, and social values have changed. A common component to all these changes is the need for greater connectivity of the regional electricity grid and other energy carriers such as natural gas.

It is beyond the scope of this submission to discuss specific technologies and systems, but the range of issues can be judged by popular commentary [*Annex F*].

Friends of the Earth (HK) submit that it is very much in Hong Kong's interests economically and environmentally to facilitate greater connectivity of the electricity grid. ESB's administration of the SCAs as separate monopolies therefore makes no sense for Hong Kong, and furthermore has no legal basis.

#### **References**

Annexes D, F, L.

### 3. Friends of the Earth's Complaint

#### Not Reasonable.

*On behalf of consumers ESB has not seen to it that their decisions can stand the test of fundamental reasoning and common sense.*

4. ESB's presentation of DSM studies to the Legislative Council, Government Departments, and the Advisory Council on the Environment has been incoherent, which has made sensible decision-making impossible.

#### Details

In 1995 ESB hired Burns and Roe to complete two studies, a Study on Demand for Electricity in Hong Kong from 1995 to 2005 and Ways of Meeting that Demand [Annex G], as well as a Study on Demand Side Management [Annex H]. In the Executive Council meeting of 5 November 1996 only the results of the first study [Annex A], which did not consider energy efficiency, were used to approve HEC's demand forecasts and to invite HEC to proceed with a site search for additional generating capacity. The Energy Advisory Committee also approved this approach without information on energy efficiency.

The Study on Demand Side Management by Burns and Roe was presented to a Legislative Council Economic Services Panel meeting in March 1997 [Annex I]. The consultant recommended that implementation of its two stage DSM program could avoid 700MW of generating capacity from 1997 to 2004.

In September 1997, the Advisory Council on the Environment (ACE) received from the Planning, Environment and Lands Bureau (hereafter called "PELB") a study titled Greenhouse Gas Emissions in Hong Kong [Annex J]. This study outlined CO<sub>2</sub> reduction potential from DSM, but did not give the basis or explicitly mention the Burns and Roe DSM report.

On 5 November 1997 and 6 February 1998, ESB signs a Demand Side Management Agreement with HEC and CLP, respectively [Annex K]. These are three and one half year agreements to implement some DSM according to the DSM handbook [Annex E], separate from the SCA. The utilities are to submit DSM resource plans within three months of signing the DSM agreement.

In January 1998, the Environmental Impact Assessment (hereafter called "EIA") subcommittee of ACE was given a paper (ACE EIA Paper 5/98) [Annex N] prepared by the Environmental Protection Department (hereafter called "EPD") and a presentation by HEC on the environmental impacts of the site options identified by HEC for capacity expansion. Despite the fact that avoidance of expansion altogether through use of DSM appeared to some ACE members to be an extremely relevant topic with great potential benefit to the environment, the information paper avoided this point by stating that demand issues were being taken up separately by ESB [Annex N, para. 5].

In response to ACE member questions on the relevance of demand projections to the

whole HEC expansion issue, ESB replied that DSM had already been taken into account in the relevant projections [Annex O]. No reference to any DSM studies or assumptions were given by ESB.

In private meetings with Friends of the Earth (HK) in February 1998, and in reply to a public letter on 23 March 1998 [Annex M, sec. 4], HEC maintains that the impact of DSM on demand will be about 0.1% annually, and that furthermore, their demand forecasts have always included DSM as part of the calculation.

On 31 March 1998, the Executive Council met and invited HEC to proceed with a detailed site investigation for an extension to Lamma Power Station. In the Provisional Legislative Council Brief of 1 April 1998 [Annex C], ESB justifies the basis of this decision on the fact that projected growth in demand far exceeds the potential savings of DSM.

No mention is made of what DSM assumptions this comparison is based on. ESB quotes HEC as having estimated in January 1998 a table of demand forecasts and cumulative peak demand DSM savings of 132MW over 11 years [Annex C, annex a]. At this point neither HEC nor CLP had produced a DSM resource plan under their DSM agreement.

On 15 July 1998, ESB replied to Legislative Council Question No. 9 [Annex P]. In replying to specific questions on demand forecasts and DSM, ESB again quoted HEC as having estimated in January 1998 a table of demand forecasts, this time without reference to DSM savings estimates, as well as ESB's own demand forecasts from January 1998. HEC's table is not the same as quoted three months previously by ESB. ESB's own demand forecast table does not reference any DSM.

ESB did not refer to any DSM assumptions in the rest of its reply to Legislative Council Question No. 9, except to note that in its opinion, no comparison could be made between DSM savings potential in Hong Kong and that of other economies that had already implemented DSM [Annex P, sec. (b)]. This statement contrasts sharply with ESB's letter of 4 May 1998 to Friends of the Earth (HK) which included the opinion that "...we do not expect [DSM] savings to be far out of line with what has been achieved in the USA."

In the 1 April 1998 Provisional Legislative Council Brief, ESB announced its intention to commission a consultant to examine, *inter alia*, the potential impact of DSM [Annex C, para. 15] and HEC's financial plan.

Friends of the Earth (HK) submit that in the history outlined above, ESB has made it impossible to draw any sensible conclusions between various references to DSM as included in the documents mentioned above. As the key negotiator with the electric utilities, ESB should at least give clear points of reference for the progress of DSM talks by periodically updating the information, assumptions, and decisions of that process. ESB's present approach has left not only the public in the dark, but has also made the decision-making of other Government bodies confused.

## **References**

Annexes A, C, E, G, H, I, J, K, M, N, O, P.

### **3. Friends of the Earth's Complaint**

#### **Not Fair.**

*ESB has not given reasons for its decisions and explained the likely effects on consumers.*

5. ESB's presentation of Burns & Roe's interconnection estimates has been biased and misleading about the consumer impacts of interconnection.

#### **Details**

At the meeting of the Executive Council on 5 November 1996 [*Annex A*], CLP was urged to defer the commissioning of its Black Point units 5 - 8 due to large excess capacity, while HEC was invited to search for a new site for generating facilities. In order to justify this logic of maintaining large excess capacity within both electric utilities, ESB presented the interconnection investigation of its consultant Burns and Roe, and the Executive Council also recommended that a further interconnection study should be done (completed, 23 October 1998).

ESB accepted the conclusions of Burns and Roe that for HEC to purchase the power of one of CLP's 312MW Black Point units would require an additional \$468 million interconnection to be built. However, a 132kV 720MVA connector has been in place between the two utilities since April 1981. CLP contended in a presentation made to the Legislative Council Economic Services Panel on 17 February 1997 [*Annex B*], that its own study which was supported by an independent consultant, concluded that power sales from a Black Point unit to HEC were feasible without requiring an additional cable to be laid across the harbour.

ESB had dismissed the use of the existing 720MVA connection at the 5 November 1996 Executive Council meeting on the basis that it was needed continuously for optimisation of spinning reserve between the two utilities and for emergency back-up. Since that time, ESB has only quoted Burns and Roe's \$468 million estimate when discussing the issue of interconnection [*Annex C, para. 3(b)*].

Friends of the Earth (HK) feel that ESB should have acknowledged CLP's estimate of interconnection cost in discussing this issue, particularly since ESB's reason for dismissing the use of the existing 720MVA connection was flawed. ESB did not mention that the interconnector is excluded from calculations of reserve margin for the utilities. That is, HEC and CLP calculate their need for new power plants as if the interconnector did not exist. The utilities use the interconnector to reduce their day-to-day operating costs, but they are not using it to reduce their claimed need for reserve margin and capacity expansion under the SCA [*Annex C, para. 6*].

Therefore, consumers have every right to use the existing interconnector to delay HEC expansion with CLP surplus, instead of paying \$468 million for a new connection, and ESB should have acknowledged this fact.

#### **References**

Annexes A, B, C.

### 3. Friends of the Earth's Complaint

#### Not Fair.

*ESB has not given reasons for its decisions and explained the likely effects on consumers.*

6. The early decommissioning of generating plant by both utilities has become the rule rather than the exception under the Schemes of Control, it is a practice which ESB has not justified as beneficial to consumers.

#### Details

Friends of the Earth (HK) submit that the decommissioning of generating capacity prematurely should be a practice that is defensible with regard to its effects on consumers.

In the recent history of HEC and CLP, parts or all of the following generating plants have been decommissioned early [*data in Annex Q*]:

- A. Tsing Yi A (CLP)
- B. Tsing Yi B (CLP)
- C. Hok Un C (CLP)
- D. Castle Peak A (CLP)
- E. Ap Lei Chau (HEC)

ESB has supported early decommissioning with the statement that it serves to reduce excess capacity. While this may benefit consumers by reducing the net return allowed to the utilities, it has not been shown whether in the long term this balances the added costs of new equipment.

For instance, how does the early decommissioning of 502MW of Hok Un C and Castle Peak A units in 1997 benefit consumers if 625MW of new capacity is being added the same year at Black Point? [*Annex R*] How did consumers benefit from early decommissioning of Tsing Yi and the simultaneous commissioning of Daya Bay Nuclear Power Plant? If there are environmental factors involved, how does ESB weigh the risks and decommissioning costs of nuclear energy compared with the pollution of fossil fuel plants?

In ESB's presentation to the Legislative Council Panel on Economic Services on 26 October 1998, [*Annex S, para 27*] it is suggested that the SCAs should extend the period of the useful life of the power companies' plant and facilities in the light of technological change. ESB suggests that this will bring economic benefits to consumers by reducing the frequency of facility replacement. How can this be logical if even under the present definitions of useful life, facilities are decommissioned prematurely?

#### References

Annexes Q, R, S.

### **3. Friends of the Earth's Complaint**

#### **Not Fair.**

*ESB has not given reasons for its decisions and explained the likely effects on consumers.*

7. In the DSM Handbook, ESB has stated without valid reasoning that strategic load management programs by the utilities will be delayed until at least their second DSM resource plan (after 2002), although this negatively impacts consumers.

#### **Details**

The most important aspect of DSM for Hong Kong to focus on in order to delay or offset further generation expansion, is to reduce the mid-day summer peak demand. It can be seen that the contribution of the domestic sector to this peak is minor as compared with the commercial sector particularly in the case of HEC [*Annex T*].

The impact on consumers from not focusing aggressively on this DSM priority is not addressed in ESB's statement that strategic load building programs will not be considered until at least the second DSM resource plans of the utilities [*Annex E, para. 2.1.2*]. For ESB to limit the scope of DSM resource plans at a preliminary stage, and then to suggest that DSM cannot meet a significant portion of Hong Kong's demand growth, seems to be a self-fulfilling prophecy.

ESB needs to demonstrate that its DSM decisions represent the consumer's best interests, and also represent the full capacity of Government's political will to implement aggressive DSM.

#### **References**

Annexes E, T.

### **3. Friends of the Earth's Complaint**

#### **Not Fair.**

*ESB has not kept consumers informed about the progress of matters of their concern.*

8. Friends of the Earth's (HK) legitimate submission of questions to ESB regarding basic energy data and Government policies has been either ignored or answered in an incomplete and unprofessional manner.

#### **Details**

In response to growing concern about the lack of coherent information on energy planning, as is described elsewhere in this complaint, Friends of the Earth (HK) wrote to ESB for basic information and clarification of Government policies. Some of these questions were never answered, others were answered in an unacceptable way.

On 23 March 1998 Friends of the Earth (HK) submitted a set of questions titled Questions on the Need for HEC's Expansion, to ESB [Annex U]. The answers were returned in April without any acknowledgment of authorship, there were glaring inconsistencies with publicly verified data, and questions on Government policy were not addressed [Annex V].

Friends of the Earth (HK) followed up its concerns from this unprofessional reply with letters on 23 and 24 April 1998 to ESB [Annex W]. These letters have not been answered to date.

A substantial set of questions was submitted in April 1998 to try to understand from first principles what data and assumptions ESB was using for energy planning [Annex X]. These questions were updated and re-submitted on 1 June 1998 (after no reply had been received) together with additional questions [Annex Y] concerning the Provisional Legislative Council Brief of 1 April 1998 [Annex C]. Neither set of questions has been answered to date.

Friends of the Earth (HK) submit that ESB's lack of interaction and accountability in addressing legitimate public concerns on energy planning, is unacceptable.

#### **References**

Annexes C, U, V, W, X, Y.

### **3. Friends of the Earth's Complaint**

#### **Not Fair**

*ESB does not have an internal review system so that adverse decisions can be re-examined by someone not involved in the initial decision making process.*

9. The secrecy which the ESB has accorded to its own and its consultant's basis for demand forecasts is unjustified and has furthermore contributed to unacceptable approval of demand forecasts made by the electric utilities, most notably in the case of China Light and Power Co.'s Black Point expansion plan.

#### **Details**

Friends of the Earth (HK) is concerned that if the basis for demand forecasts is not subject to a review process, then major mistakes are possible for which consumers must pay. The accuracy of any particular forecast is not the issue.

For instance, in the celebrated case of CLP's demand forecasts which were endorsed by Burns and Roe and which led to the approval of Black Point expansion plans, we believe that had CLP's sales to China increased as expected, the forecasts would have been "right". Whether forecasts are right or wrong is not as important for the consumer as knowing what factors the forecasts are based on.

The main issue was really the validity of basing CLP's expansion within the SCA largely on the potential of sales outside the SCA to Guangdong. If there had been a review process to question the risk to Hong Kong consumers from approving multi-billion dollar expansion where a substantial portion of the projected demand was not in Hong Kong, Friends of the Earth (HK) do not believe that it would have been approved.

Friends of the Earth (HK) submit that a review process of demand forecast information on behalf of consumers is long overdue. It must be further questioned if the issue of trade secrets is a valid reason for lack of disclosure when the ESB makes its own forecasts on behalf of consumers.

#### **References**

None.

### **3. Friends of the Earth's Complaint**

#### **Not Responsible.**

*Consumers have not been dealt with carefully, by considering all relevant and material facts and factors in the decision making process.*

10. ESB gave no factual basis or study in support of its claim that renewable energy sources had no potential to contribute significantly to meeting Hong Kong's demand growth in the period 1996 to 2005.

#### **Details**

Friends of the Earth (HK) is concerned that ESB has dismissed a potentially large growth industry for the Hong Kong economy. Renewable energy technologies are the fastest growth sectors in today's world of energy [Annex Z]. In the summary of Burns and Roe's study of Electricity Generating Capacity for the period to 2005 [Annex A], ESB has provided no grounds for the consultant's conclusion that "...renewable energy sources available in Hong Kong will not have a major role in meeting HEC's future power requirements to 2005".

If ESB is convinced that renewable energy sources are not worth serious consideration at the moment, then no incentives will be given to the utilities to promote these energy sources and renewables will not expand, and consequently ESB is engaging yet again in self-fulfilling prophecy, as highlighted in our complaint point #7. Likewise, by only considering HEC and CLP in isolation, ESB is cutting off the great possibilities of renewable energy development in south China and interconnection with Hong Kong.

Friends of the Earth (HK) submit that ESB has not considered all relevant facts in evaluating the role of renewable energy sources in Hong Kong's future. At least there should be an economic estimate of the costs of renewable sources of power compared with the real marginal cost of on-peak capacity.

#### **References**

Annex A, Z

### **3. Friends of the Earth's Complaint**

#### **Not Responsible.**

*Consumers have not been dealt with sensibly, by maintaining a proper balance between the adverse effects of ESB's decisions on the legitimate rights and interests of the affected persons and the purpose being pursued by taking those decisions...*

11. ESB has too narrow a scope in comparing costs of energy options. Hong Kong people have a legitimate right to be presented with estimates for the impacts to the local economy from different ways of meeting Hong Kong's power demands, particularly as this relates to direct and indirect employment, tariffs, etc.

#### **Details**

In order for Hong Kong consumers and the economy in general to benefit most from energy planning, ESB needs to evaluate the fuller implications of energy choices. For instance, it is well known that energy efficiency and renewable energy industries put more money back into the economy because they are less capital intensive than large fossil fuel plants and more job intensive.

At the moment ESB is not comparing fossil fuel expansion with the costs of saved energy, jobs created, pollution avoided, landscape value retained, etc. These values are real and need to be estimated to make the best judgement of economic benefit.

As demonstrated by other regions that have initiated a process of full costing of all their energy options, the process is often as important as the conclusions [Annex AA]. The process of costing all options gives Hong Kong people the chance to define their social priorities. ESB is not presently giving people that choice.

Hong Kong needs an active Energy Department or Commission. ESB's passive definition of its own role is at the heart of Hong Kong's lack of vision in energy planning. For ESB to consider that "It is primarily a matter for the power companies to initiate action and make proposal to the Administration..." in planning for Hong Kong's electricity supply, is inadequately responsible for planning a sustainable future [Annex P, para. (f)].

#### **References**

Annex AA, P.

### **3. Friends of the Earth's Complaint**

#### **Not Responsible.**

*Consumers have not been dealt with sensibly, by maintaining a proper balance between the adverse effects of ESB's decisions on the legitimate rights and interests of the affected persons and the purpose being pursued by taking those decisions...*

12. The legitimate interests of Hong Kong people for environmental stewardship by support to international initiatives like the FCCC and APEC energy principles have been unjustifiably and unacceptably marginalised by ESB.

#### **Details**

Hong Kong people have legitimate rights to expect that global agreements on environmental goals are at least considered in Government planning process.

In the case of energy, Hong Kong has obligations to consider the Framework Convention on Climate Change (hereafter called "FCCC") and the 1996 APEC Energy Principles. Like all other regions that are heavily reliant on fossil fuels for their energy, Hong Kong is not in an easy position to implement environmental concepts.

For instance the FCCC urges developed countries to reduce Greenhouse Gas emissions to 1990 levels. By all indications Hong Kong will far exceed this level in the coming decade without drastic changes in energy use, among the most prominent is electricity production.

The 1996 APEC Energy Principles outline better procedure instead of actual emission goals. For instance, two of the APEC principles call on countries to:

- A. Remove impediments to the adoption of efficient and renewable energy technologies and infrastructure.
- B. Implement pricing which reflects costs of energy systems across the full energy cycle, with regard to environmental costs.

This is an area that ESB should at least be recognising as important in its role to promote sustainable development principles as discussed by other Government policy groups. Unfortunately, ESB has stated in the DSM Handbook [*Annex E, para. 2.1.3.7*] that environmental costing will not be considered in the evaluation of DSM measures.

Friends of the Earth (HK) submit that ESB's planning of energy supply for Hong Kong is increasingly out of touch with the local and international priorities for sustainable development. This is irresponsible on behalf of present and future generations.

#### **References**

Annex E.