

長春社的信頭
Letterhead of The Conservancy Association

**The Conservancy Association's Position Paper concerning
An Objection to Lamma Power Station Extension**

The Conservancy Association (CA) believes that there is insufficient ground for the government to grant any approval to Hong Kong Electric Co Ltd (HEC) proposed power station extension on Lamma Island (the Proposal"). In particular, such Proposal should not be allowed to carry forward with any explicit or implicit official blessing until and unless the following issues are resolved satisfactorily through a comprehensive process of public consultation:

1. Open Information

In a letter to the Powerful Coalition dated 26 August 1998 the Secretary for Economic Services promised to make public HEC's and the government's revised forecasts of power demand, together with adequate supporting information. The government has until this date failed to do so. Without these fundamental information it is not possible to justify any addition of new power generating capacity, let alone an expansion on Lamma Island.

In revising its forecasts we have urged the government to take into account of the ongoing structural changes in the economy and also the effects of the current recession. We still believe that these are factors that warrant the most careful evaluation. As an example, Mainland China's power demand has been experiencing an annual growth of between 7% and 11% in the 1990s. However this year's economic downturn (not a recession as severe as Hong Kong) has led to only 2% growth in the first nine months. In fact many provinces are experiencing close to zero growth in power demand. As a result there are situations of significant over-capacity in Guangdong and many other provinces. Many investors in independent power generation are losing money.

Under the present scheme of control, if excess capacities are added to the Hong Kong system, those who lose money will not be the shareholders of the power companies but will be consumers who are obliged to pay higher tariffs to compensate for the wastes.

2. Interconnection and Competition

The government has commissioned a study on interconnection and competition which is expected to report its findings before the end of 1998. With the excess capacity of over 50% in CLP's system, there are clear potentials for delaying any new capacity for HEC if interconnection between the CLP and HEC systems proves viable. We are of the view that the viability of interconnection should depend not solely on the short-term economics in making use of current excess capacities, but the need for an open, competitive and more environmentally friendly system of power supply in the long-term.

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A more fundamental question is competition. The CA has argued earlier that in the longterm only full competition, with proper safeguards in environmental controls, can make Hong Kong stay competitive and at the same time meet with Hong Kong people's expectations in terms of environmental quality. An urgent task for the government, legislators and other stakeholders alike is to foster a public debate on appropriate competition policy and regulatory framework for the power sector. The government's study, when published later this year, should be one of the inputs to that debate. Should such a debate lead to policy changes that encourage open competition and deregulation, it will have a profound impact on how investment decisions for new power generating capacities should be made, including the one concerning the proposed Lamma Island extension.

It is clear that until the question of interconnection and competition policy is satisfactorily resolved, any decision on the Proposal is unwise and unjustified.

3. Integration with the Mainland

With the removal of political boundary since 1997, there are strong arguments to support a serious effort to integrate the Hong Kong system with those in Guangdong. There are at least two levels of integration that warrant serious consideration: cross-supply and system planning.

With regard to cross-supply, Hong Kong might take advantage of the current excess capacity in Guangdong, make full use of the cheaper and more environmentally friendly hydropower from Guangxi and Guizhou (as these grids are being linked up with Guangdong), and enjoy the advantages of a larger system (smaller reserve margins might be required as a result).

With the integration of system planning, sites for new capacities can be selected from a wider range of potential locations in both Guangdong and Hong Kong. By widening the range of choices, there exists potentials for more rational planning, more efficient land use and less adverse environmental impacts. Should we adopt this wider perspective, whether Lamma Island is an appropriate site for new capacities will be called into question.

The government has yet to embark on any serious discussions with the Guangdong authorities on the question of integration. We would like to urge the government to undertake such an exercise as a matter of urgency and in parallel with the review of competition policy in the power sector.

4. Independence of Third Party Opinion

It is a worrying trend that while government officials depend heavily on third party opinion from external consultants, these consultants are selected from a very small pool which consists of the same consultants frequently used by the power companies. For instance, consultants such as Burns & Roe which was selected by the government to review HEC forecasts must declare its interest to the public about its past and present links with HEC.

Likewise, the choice of ERM, who is conducting the Lamma Island EIA for HEC, to carry out the Interconnection and Competition Study for the government calls into question the impartiality of their opinion.

Whilst there is no evidence to show that consultants concerned are being unduly influenced, it is important that the government and the consultants can together demonstrate with clear evidence that there is absolutely no potential for conflict of interests before their opinion will become credible in public eyes. Otherwise the government has to account for the waste of public money for paying for reports with little or no credibility.

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The Conservancy Association