

立法會
Legislative Council

LC Paper No. CB(1) 1298/05-06
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Ref : CB1/PL/EA/1

Panel on Environmental Affairs

**Minutes of meeting held on
Monday, 27 March 2006, at 2:30 pm
in Conference Room A of the Legislative Council Building**

- Members present** : Hon CHOY So-yuk, JP (Chairman)
Hon Emily LAU Wai-hing, JP (Deputy Chairman)
Hon CHEUNG Man-kwong
Hon SIN Chung-kai, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-yeet, GBS, JP
Hon Albert CHAN Wai-yip
Hon Audrey EU Yuet-mee, SC, JP
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
- Members attending** : Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon Fred LI Wah-ming, JP
- Members absent** : Hon Martin LEE Chu-ming, SC, JP
Hon WONG Yung-kan, JP
- Public officers attending** : **For item IV**
Environmental Protection Department

Mr Roy TANG
Deputy Director of Environmental Protection (3)

Mr TSE Chin-wan
Assistant Director of Environmental Protection
(Air Policy)

Economic Development and Labour Bureau

Mr Howard LEE
Deputy Secretary for Economic Development and Labour
(Economic Development) 2

CLP Power

Mr Richard LANCASTER
Commercial Director

Ms Jane LAU
Group Public Affairs Director
CLP Holdings

The Hongkong Electric Co., Ltd.

Mr Gary CHANG
General Manager (Management Services)

Mr Y C YEUNG
Research and Services Manager

Attendance by invitation : For item IV

Hong Kong Institution of Engineers

Ir Peter Y WONG
Vice President

The Conservancy Association

Mr Albert LAI
Director

Green Council

Ms Linda W P HO
Chief Executive Officer

Greenpeace China

Mr CHOW Sze-chung
Air Pollution Campaigner

WWF Hong Kong

Mr Alan LEUNG
Senior Conservation Officer

Civic Exchange

Dr Bill BARRON
Senior Research Fellow

Association of Engineering Professionals in Society Ltd

Ir YIM Kin-ping
Senior Vice Chairman

Clear The Air

Ms Annelise CONNELL
Chairperson

Friends of the Earth (HK)

Mr CHU Hon-keung
Environmental Affairs Manager

Clerk in attendance : Miss Becky YU
Chief Council Secretary (1)1

Staff in attendance: Mrs Mary TANG
Senior Council Secretary (1)2

Miss Mandy POON
Legislative Assistant (1)4

I. Confirmation of minutes

- (LC Paper No. CB(1) 1120/05-06 — Minutes of the special meeting held on 19 January 2006
LC Paper No. CB(1) 1121/05-06 — Minutes of the meeting held on 27 February 2006)

The minutes of the special meeting held on 19 January 2006 and the minutes of the regular meeting held on 27 February 2006 were confirmed.

II. Information paper issued since last meeting

2. Members noted that the following information papers had been issued since the last meeting –

LC Paper No. CB(1) 1001/05-06(01) — Submission from the Chairman of Jets Technics Limited, enclosing with it his correspondence with the Administration on the recycling of waste tyres (Chinese version only)

LC Paper No. CB(1) 1002/05-06(01) — Submission from the Kwai Tsing District Council (KTDC) informing the Panel of the motion passed by KTDC at its meeting on 15 February 2006 objecting to the incineration of clinical waste at the Chemical Waste Treatment Centre at Tsing Yi (Chinese version only)

LC Paper No. CB(1) 1161/05-06(01) — Proposals to reduce the environmental impacts of the Tung Chung Cable Car Project on the ecology of Ngong Ping submitted by the Office of the Hon Albert CHAN (Chinese version only)

III. Items for discussion at the next meeting

- (LC Paper No. CB(1) 1122/05-06(01) — List of follow-up actions
LC Paper No. CB(1) 1122/05-06(02) — List of outstanding items for discussion)

3. Members agreed to discuss the following items at the next regular meeting scheduled for Monday, 24 April 2006, at 2:30 pm –

- (a) Proposed legislation for implementation of Producer Responsibility Schemes;
- (b) Progress report on the management of construction and demolition materials; and
- (c) 61DR – Northeast New Territories village sewerage, phase 2.

(Post-meeting note: At the request of Hon Albert CHAN and with the concurrence of the Chairman, an additional item on “Proposals to reduce the environmental impacts of the Tung Chung Cable Car Project on the ecology of Ngong Ping” was subsequently included in the agenda for the meeting on 24 April 2006.)

IV. Environmental aspects of the Consultation Paper on Future Development of the Electricity Market in Hong Kong – Stage II Consultation

4. As the consultation period for the Consultation Paper on Future Development of the Electricity Market in Hong Kong – Stage II Consultation (the Consultation Paper) was due to expire on 31 March 2006, the Chairman said that the Panel considered it necessary to invite interested parties to give views on the environmental aspects of the Consultation Paper.

Meeting with Hong Kong Institution of Engineers (HKIE)
(LC Paper No. CB(1) 1122/05-06(03) (English version only))

5. Ir Peter WONG, Vice President of HKIE, said that the Consultation Paper did not clearly spell out the choice of fuel for power generation, which was one of the prime factors in ensuring a stable and clean supply of electricity. On the development of renewable energy (RE), HKIE considered that wind farm was not yet a viable option in Hong Kong given the magnitude of the farm involved. It was believed that energy-from-waste was worth considering because apart from generating electricity, this would be able to treat municipal solid waste. Installation of solar panels at consumers’ premises as a commitment to protect the environment was also worth supporting in spite of the high installation costs. Grid access and buy-back provisions should be put in place so that RE generated by local sources could be put to use by the public. He however stressed that RE could not be relied upon as a

primary source of electricity supply since its output was often fluctuating and uncontrollable. In the event that inter-connection with Guangdong on the supply of RE was a goal in future, preparatory work should begin with the Hong Kong Special Administrative Region now.

6. Mr WONG added that instead of letting the power companies to perform the Demand Side Management (DSM), the Administration should take up the role because a successful DSM programme would limit the growth of electricity demand, which would run contrary to the commercial nature of the power companies. As energy conservation and efficiency were crucial in facilitating future sustainable development, efforts should be made to promote these aspects in both Hong Kong and the Pearl River Delta (PRD) Region.

Meeting with Conservancy Association (CA)
(LC Paper No. CB(1) 1122/05-06(04) (English version only))

7. Mr Albert LAI, Director of CA, said that the Consultation Paper was an important document as it not only outlined the future development of the electricity market but also contributed to the formulation of an energy policy in Hong Kong. Given the need to enhance transparency and accountability in the development of a sustainable energy policy, CA would support the establishment of an independent regulatory authority to oversee market reform, review environmental performance as well as implement energy conservation and DSM measures. During the interim, consideration should be given to enhancing the role of the Energy Advisory Committee (EAC) to a level comparable to the Advisory Council on the Environment through more broad-based representation of stakeholders, higher transparency and greater authority. To foster the development of RE, the Administration should be more proactive in setting technical codes and grid access charges for RE suppliers.

8. As clear long-term targets were essential for continuous improvement in air quality, Mr LAI opined that the Administration should formulate the emission reduction targets beyond 2010 as part of a sustainable energy policy. Studies on the emission levels of power plants in the PRD Region should be carried out so that measures could be worked out accordingly. The Administration should also make available to the public the levels of pollutants which were affecting Hong Kong.

Meeting with Green Council (GC)
(LC Paper No. CB(1) 1122/05-06(05) (English version only))

9. Ms Linda WP HO, Chief Executive Officer of GC, said that GC welcomed the measures in the Consultation Paper to reduce the environmental impacts associated with power generation. It supported the proposal to link the permitted rate of return of power companies to their ability in achieving the emission caps, and the use of mandatory licensing arrangements to ensure environmental compliance by power companies. Future bilateral agreements should contain provisions to review the financial, technical and environmental performance of power companies on an

annual basis. Consideration should also be given to providing incentives to encourage power companies to improve their performance in respect of energy conservation, DSM and the use of RE. In addition, efforts should be stepped up to enhance public education on energy conservation and development of RE, including wind energy and energy-from-waste using well proven thermal processes. Owing to geographical constraints in Hong Kong, import of RE from the Mainland might be considered. However, there should be a time table to increase the share of RE in electricity generation so as to stimulate the development of RE and provide business prospects to interested parties. To this end, appropriate arrangements should be made to address issues, including access to the power grid and environmental impacts associated with the provision of RE.

Meeting with Greenpeace China

(LC Paper No. CB(1) 1122/05-06(06) (Chinese version only))

10. Mr CHOW Sze-chung, Air Pollution Campaigner, Greenpeace China, said that Greenpeace was most concerned about pollution associated with the use of coal in power generation. He pointed out that coal-fired power generation accounted for the emission of over 90% of sulphur dioxide (SO₂) and over 50% of nitrogen oxide and respirable suspended particulates (RSP) in the atmosphere. Carbon dioxide and other pollutants emitted from coal-fired power generation also gave rise to greenhouse effect, for which there was yet no remedial solution. Despite the serious environmental implications, the Government had failed to implement a fuel policy to reduce the reliance on the use of coal in power generation. According to the findings of a study on wind energy commissioned by Greenpeace in 2005, the use of coal for power generation could be dispensed with if 50% of the wind energy generated in Guangdong by 2020 could be imported in Hong Kong. In this connection, Mr CHOW asked if the Administration would consider including in the new Scheme of Control Agreements (SCAs) with the two power companies the need to reduce reliance on the use of coal in power generation, and allowing access of RE from Guangdong to the power grid. He also urged for more public participation in the negotiating process.

Meeting with WWF Hong Kong (WWF)

(LC Paper No. CB(1) 1122/05-06(07) — Joint submission from the WWF Hong Kong, Civic Exchange and Rocky Mountain Institute (English version only))

11. Mr Alan LEUNG, Senior Conservation Officer, WWF, said that WWF and the Civic Exchange were disappointed at the conservative goals in the Consultation Paper without taking into account the changing dynamics of future energy markets and energy technologies. It also failed to facilitate fair grid access for RE suppliers and small-scale power producers. As over 70% of the energy was lost in generation, transmission and distribution, WWF supported decentralization of electricity production and distribution which was cleaner and cheaper, particularly with the rapid decreases in the costs of small-scale generation technologies, coupled with the

reduced investment requirements in transmission and distribution. This would make decentralized power the least cost generation option to the existing centralized system. WWF considered that the Administration should devise an integrated energy policy to ensure a reliable and efficient energy supply system on the one hand while allowing participation from consumers and key stakeholders on the other.

Meeting with Civic Exchange

12. Dr Bill BARRON, Senior Research Fellow of Civic Exchange, said that Hong Kong had tremendous potential for energy conservation but unfortunately, the needed incentives were not included in SCA. Consideration should be given to requiring utilities companies to set up energy services companies as in the case of overseas countries to help consumers save energy through the installation and use of energy-efficient appliances. In the longer term, there might be a need to introduce a carbon tax to deter high energy consumption which would lead to environmental pollution. It was important for the Government to set clear goals to reduce greenhouse gases so that the power companies would know what was expected of them in future. This would also provide the incentive for power companies to use more environmentally friendly fuels to replace coal in power generation. Meanwhile, the new SCAs should encourage efficiency gains and provide emission caps for the two power companies.

Meeting with Association of Engineering Professionals in Society Ltd (AEPS) (LC Paper No. CB(1) 1122/05-06(08))

13. Ir YIM Kin-ping, Senior Vice Chairman of AEPS, said that AEPS was in support of the Government's policy objectives as set out in the Consultation Paper. The existing electricity supply arrangement had provided a win-win-win situation allowing reasonable and affordable tariff, good environmental performance, and reliable energy supply. The two power companies had been providing a reliable and steady capital appreciation for investors and had demonstrated a very successful case of Public Private Partnership. Therefore, AEPS would support the status quo for the existing ideal arrangements which should not be dismantled for the sake of reform. Given the long-term payback period, the huge investments and the uncertainties of electricity supply industries, AEPS considered that the permitted rate of return and the duration of agreement should not be set at too low a level as this might discourage long-term investment to the supply system.

14. On environmental aspects, Ir YIM said that AEPS had reservations on the proposals of adopting the lowest rate for environmental improvement on coal-fired units as well as imposing unilaterally and arbitrary emission caps as these might cause unreasonable investment risks on the part of the power companies. To this end, a clear, long-term and integrated energy policy in respect of fuel mix, security of fuel supply, and the role of coal and natural gas for power generation in Hong Kong was essential. Further lowering of tariff was also not recommended as this would likely encourage higher energy consumption. Instead, efforts should be made to promote

energy conservation and efficiency. Ir YIM added that AEPS was against the opening of the electricity market and the introduction of new players at the present immature stage when the plans and regulations had yet to be drawn up. Besides, the opening of the market to allow the import of electricity from the Mainland might affect the jobs of thousands of employees of the two power companies. Notwithstanding, the two power companies should discharge their corporate responsibilities through self-initiated tariff concession, public education on energy sustainability, research and development of RE. He however pointed out that RE resources were still far from becoming a reliable source of power generation and supply in Hong Kong. More should be done to facilitate the development of RE.

Meeting with Clear The Air

(LC Paper No. CB(1) 1165/05-06(01) (English version only))

15. Ms Annelise CONNELL, Chairperson of Clear The Air, said that SO₂ from power generation would cause rain which was detrimental to health and the environment. While there were existing technologies to reduce SO₂ emission from power generation, the two local power companies chose not to use them. Instead, they only focused on power generation even if there was an over-supply of electricity as in the case of the CLP Holdings (CLP), which had been selling 12% of its total electricity production to the Mainland. She also expressed concern about the fuel mix of the two power companies. While CLP had a fuel mix of 50% coal, 30% nuclear energy and 20% natural gas, the Hongkong Electric Company Limited (HEC) was totally dependent on the use of coal for power generation over the past decades. Given their different environmental performances, separate bilateral agreements should be worked out for the two power companies. She was also dissatisfied that HEC had failed to install desulphurization facilities in their coal-fired plants in Zhuhai to reduce emissions, which had indeed seriously affected the air quality of the entire PRD Region, including Hong Kong. On energy saving, Ms CONNELL said that the 20% energy-saving target would be achievable if the Government and the community would cooperate in reducing energy consumption. Energy conservation and efficiency measures should be worked out for the benefit of the community.

Meeting with Friends of the Earth (HK) (FOE)

16. Mr CHU Hon-keung, Environmental Affairs Manager of FOE, said that the Consultation Paper lacked a clear energy policy for the two power companies to formulate their forward planning. As Hong Kong had tremendous capacity for energy conservation, there was a need to implement energy conservation and efficiency measures on a wider scale. He held the view that the Administration's target to conserve 1.5% of energy consumption every year was too conservative and a higher target of 2% should be set. As it would be against their interest under the permitted rate of return for the power companies to promote energy conservation, he considered it necessary for the Government to take the lead in promoting energy conservation and efficiency. However, any reduction in energy consumption should not be used by the power companies as an excuse to increase their tariff.

(Post-meeting note: The submission from FOE, which was tabled at the meeting, was subsequently circulated under LC Paper No. CB(1) 1184/05-06(01).)

17. The Chairman also drew members' attention to the submission from the Advisory Council on the Environment (LC Paper No. CB(1) 1122/05-06(09) which did not attend the meeting

Meeting with the Administration and the two power companies and general discussion

LC Paper No. CB(1) 1122/05-06(10) — Background brief on renewable energy prepared by the Legislative Council Secretariat

LC Paper No. CB(1) 1122/05-06(11) — Updated background brief on air pollution control prepared by the Legislative Council Secretariat

LC Paper No. CB(1) 626/05-06(01) — Information paper together with the Consultation paper on Future Development of Electricity Market in Hong Kong – Stage II Consultation provided by the Economic Development and Labour Bureau

LC Paper No. CB(1) 1122/05-06(12) — Paper provided by the Environmental Protection Department

LC Paper No. CB(1) 1165/05-06(02) — A list of questions raised by Hon SIN Chung-kai for the Administration's response (Chinese version only))

18. Mr Gary CHANG, General Manager (Management Services), HEC (GM(MS)/HEC), gave a power-point presentation on the environmental performance of HEC under the existing SCA, the progress of development of the wind turbine and the new liquefied natural gas (LNG) power plant at Lamma Island, and the environmental aspects of the Consultation Paper. Mr Richard LANCASTER, Commercial Director, CLP (CD/CLP) also gave a power-point presentation on the major environmental initiatives adopted by CLP and its emission performance in 2005.

(Post-meeting note: Copies of the power-point presentation materials tabled at the meeting were circulated under LC Paper No CB(1) 1184/05-06(02) and (03).)

Environmental performance of the power companies

19. Mr Fred LI expressed concern that the two power companies might not be able to meet the 2010 emission reduction targets, particularly in respect of RSP despite that the tolerance standard in Hong Kong was already more relaxed than that of particulate matters smaller than 2.5 micrometres (PM2.5) in other developed countries.

In response, the Deputy Director of Environmental Protection (3) (DDEP(3)) emphasized that the 2010 emission reduction targets were practical and achievable. HEC would be able to meet the targets upon commissioning of the L10 unit and the flue-gas desulphurization (FGD) systems. CLP would also endeavour to improve its emission performance to meet the targets. As regards PM2.5, DDEP(3) clarified that the standard had yet to be reached in the United States and the European countries. The Administration would be keeping a close watch on the development of standards for and control of PM2.5 worldwide before deciding on setting a standard for Hong Kong. Meanwhile, the permissible pollutant levels would be set out in the Specified Process Licenses (SPLs). As the emission reduction target in respect of RSP was difficult to be met by the two power companies, the Administration was working on the emissions trading scheme with the relevant authorities in Guangdong to allow flexibility. The goal was to reduce emissions in the PRD Region, of which 20% were from Hong Kong and the remaining 80% were from the Mainland. GM(MS)/HEC said that while HEC should be able to meet the 2010 emission reduction targets upon completion of the L10 unit and FGD systems, it was hoped that the Administration would consult the power companies on any proposals to further tighten the emission reduction targets beyond 2010.

20. Mr LAU Kong-wah noted with concern the slow progress which the two power companies had made in implementing emission reduction measures. For instance, that CLP had just started commissioning its FGD facilities. Moreover, instead of discharging their corporate responsibility to improve emission performance, the power companies were using emission reduction facilities as tools for bargaining better terms for their SCAs, such as higher rate of return and longer duration, which were contrary to public aspirations. As consumers had no choice on the source of electricity, he stressed that it would be incumbent on the two power companies to expedite the commissioning of FGD facilities.

21. In reply, CD/CLP explained the timing for the FGD project. He said that after the agreement on the 2010 emission reduction targets was reached between the Government of the Special Administrative Region and the Guangdong Provincial Government in 2002, CLP had identified FGD system as the most cost effective way to achieve the emission reduction targets. CLP put forward an informal proposal to the Government in 2003 and later submitted the details of the project along with the financial plans in mid 2004. Engineering work and the environmental impact assessment studies commenced soon after approval for the project was obtained in 2005. On the other hand, as the use of LNG for power generation was also the key in meeting the emission reduction targets, a larger and stable LNG supply would be needed and the provision of the related infrastructure would require policy approval from the Government. GM(MS)/HEC said that HEC would be able meet the 2010 emission reduction targets with the commissioning of three LNG facilities and five FGD facilities. The first three FGD facilities had commenced operation in 1993, 1995 and 1997. The fourth and the fifth FGD facilities were expected to be commissioned in 2009 and 2010.

22. In order to provide early relief to the emissions problem, the Chairman urged the power companies to expedite their improvement measures as soon as practicable. She also considered that the Administration should work out the emission reduction targets beyond 2010 so that the energy sector would know what was expected of them in the longer term. DDEP(3) said that 2010 emission reduction targets were set after careful scientific studies. After these targets were set, the Government worked with different sectors, such as vehicle industries and power companies, on measures to meet the targets. He stressed that the Government would not dictate the types of fuels or fuel mix to be used for energy generation so long as the power companies could meet the emission caps stipulated in SPLs. In fact, research study on advanced Clean Coal Technologies to achieve near-zero emission from coal-fired generators was being conducted in the United States for completion in 2012. In considering emission reduction targets in the longer term, the Administration would take into account technological development in generation technologies and public aspirations on air qualities.

Opening of the electricity market and the development of RE

23. Ms Emily LAU thanked the deputations for their valuable views. While appreciating the efforts made by the two power companies in reducing their emissions, she remained of the view that more should be done. Referring to the motion on the opening of the electricity market moved by Mr Albert CHAN and carried at the Council meeting on 15 February 2006, Ms LAU said that the power companies seemed to have ignored the sentiments of Members and the public as evidenced by the requests in HEC's presentation materials for maintaining the duration of SCA at 15 years, abolishing the varying rate of return for different types of assets, maintaining an attractive rate of return commensurate with investment risks and avoiding double penalties for failing to meet emission reduction targets, which were at variance with the policy intent of the Consultation Paper. She urged the power companies to take account of public aspirations on future development of the electricity market. Ms Annelise CONNELL/Clear The Air said that the power companies had not been efficient nor effective in the use of resources. By way of illustration, CLP had to leave their turbines idle due to insufficient supply of LNG, while HEC had adequate supply of LNG but did not have gas turbines. It was therefore important to foster a level playing field for power companies to compete against each other. Dr Bill BARRON/Civic Exchange said that he was surprised by the divergent views which HEC had presented at such a late stage of consultation.

24. Noting from the Consultation Paper that the Administration would seek the agreement of the two power companies to provide connection/access to their grids, Ms Audrey EU enquired about the time frame for such provision and whether this could be completed within 10 years' time. The Deputy Secretary for Economic Development and Labour (Economic Development) 2 (DS/EDL(ED)2) said that the Administration was expected to have greater participation in the planning for the opening of the electricity market. Clear guidelines would be set on grid access/connection to ensure the safety and reliability of electricity supply. An

accounting and settlement system would also need to be worked out for power transactions. He said that the Administration would continue regulating the electricity market by means of bilateral agreements which would remain the regulatory vehicle for the next 10 to 15 years.

25. Mr LAU Kong-wah opined that Hong Kong had lagged behind in the development of the electricity market. He then sought elaboration on the Greenpeace's study that the use of coal for power generation could be dispensed with if 50% of the wind energy developed in Guangdong in 2020 could be imported to Hong Kong. Ir Dr Raymond HO also sought deputations' views on the importation of RE from the Mainland as well as the maintenance of grid connection and reliability of electricity supply following the opening of the electricity market. Ir Peter WONG/HKIE said that HKIE would support the provision of grid access as a start. Consideration could be given to allowing grid connections by small-scale RE producers using solar energy and energy-from-waste on a trial basis. Ms Annelise CONNELL/Clear The Air also supported the provision of grid connection and interconnection because in this way, the two power companies could compete with each other and consumers residing on the Hong Kong Island could have the option to buy the cleaner power from CLP. Through the Chair, DS/EDL(ED)2 advised that consumers with RE generating system to meet part of their in-house electricity demand could, with payment of a nominal fee, request the power companies to provide back-up electricity supply by connecting their generating system to the grids of power companies.

26. Apart from having a back-up supply from the power companies, Mr SIN Chung-kai asked if the Administration would consider setting up of a regulatory framework on grid access, similar to that of Japan, to allow small-scale RE producers to feed electricity back into the grids of the power companies. As small-scale RE producers would have difficulties in negotiating with power companies on the technology and charges associated with grid access, Mr Albert LAI/CA said that there was a need for the Administration to work out clear guidelines on the provision of grid access for RE users/producers.

27. Through the Chair, DDEP(3) said that the Consultation Paper contained proposals of allowing RE users to have grid connection for back-up electricity supply from power companies. DS/EDL(ED)2 added that technical guidelines on the connection of small-scale RE systems to the grids had been worked out by the Electrical Mechanical Services Department (EMSD) in consultation with the power companies and interested groups. These technical guidelines would be further improved to cater for the feeding back of electricity from RE sources into the grids. CD/CLP said that a simple brochure on the technical guidelines, including a straight-forward application procedure for grid connection, was made available for RE users. In fact, a number of RE systems had already been connected to CLP's grid and the charges for grid connection were considered reasonable.

28. Ms Audrey EU sought deputations' view on the establishment of an independent energy authority to deal with the opening of the electricity market and energy conservation. Mr Albert LAI/CA said that CA would support the proposal to ensure fair competition among suppliers and encourage participation of stakeholders. He nevertheless pointed out that while power companies, as service providers, should have the corporate responsibility to reduce emissions, it was the consumers who were the actual polluters. Mr CHU Hon-keung/FOE however held a different view. He stressed that consumers were not given any choice on the source of electricity which was dictated by the power companies. Through the Chair, DS/EDL(ED)2 said that the need for the setting up of a regulatory authority to oversee the future development of the electricity market as well as the implementation of energy conservation measures would be kept under review.

29. In response to Mr SIN Chung-kai's view that the two power companies had much to gain from the SCA, Ir YIM Kin-ping/AEPS said that the two power companies had been providing a very reliable and affordable power supply in the past and their efforts were commendable. Mr Albert LAI/CA said that a longer duration for the new SCA was necessary on account of the long-term investment needed for power generation. He therefore supported to extend the duration of the new SCA from the proposed 10 years under the Consultation Paper to 15 years, in line with existing SCA.

Proposed linkage of the permitted rate of return of power companies with their emission performance

30. The Chairman welcomed the proposal to link the emission performance of power companies with the permitted rate of return, which was a result of the persistent efforts of Members and the Administration. As a step forward, consideration should be given to introducing a carbon tax on emissions from polluting industries.

31. Mr Albert CHAN said that Hong Kong was way behind others in the development of RE which only comprised 1% of the total power generation in Hong Kong as compared to 50% to 70% of that in European countries. The lack of control on the emission performance of the two power companies had enable them to profiteer from the use of coal in power generation, which was most damaging to the environment and had led to deleterious impact on air quality. To this end, additional conditions should be included in the new SCAs for the two power companies to reduce their reliance on the use of polluting fuels for power generation. He then sought deputations' views on the linkage of the permitted rate of return with the emission performance of the power companies and the feasibility of RE development in Hong Kong.

32. Mr CHOW Sze-chung/Greenpeace said that Greenpeace would support the proposal to reduce the permitted rate of return if power companies could not achieve the emission caps stipulated in their SPL. While the proposed reduction would not directly benefit consumers, this would provide the needed incentives for power

companies to improve their emission performance, which would bring about environmental gains to the community as a whole. Mr Albert LAI/CA said that reference should be made to the experience in Taiwan where charges were levied on the emissions produced by power companies. Instead of setting different rates of return for different types of assets, consideration should be given to applying a uniform rate of return based on the emissions produced. This would provide clear and effective incentives for the power companies to improve emission performance through the use of cleaner fuel and/or advanced technology.

Energy conservation

33. Ms Audrey EU noted that under the present arrangement, the Average Net Fixed Assets was used in determining the permitted rate of return of the two power companies. She was concerned that efforts made in conserving energy might be used as an excuse by the power companies to increase tariff in order to maintain their permitted returns. She asked how the dual purpose of energy conservation and tariff reduction could be achieved. Mr LEE Wing-tat also enquired about the efforts made in developing the electricity market in the past 10 years in terms of DSM, energy conservation and efficiency etc. He said that it might be useful to invite EAC representatives to explain the latest developments of the electricity market. The Chairman said the subject of energy conservation would be discussed by the Panel soon and EAC representatives would be invited to attend the meeting. On DSM, the Chairman asked if incentives could be introduced to promote the use of energy during night time.

34. DS/EDL(ED)2 said that the Energy Efficiency Office (EEO) of EMSD, in conjunction with the Environmental Protection Department (EPD), were working on energy conservation measures, including energy efficiency labels, energy audits of buildings as well as DSM controls. Meanwhile, joints efforts were made by the Economic Development and Labour Bureau and the Environment, Transport and Works Bureau in monitoring the electricity market through economic and environmental regulation. DDEP(3) said that EPD had been promoting energy conservation through education and publicity programmes. The target was to reduce energy consumption by 1.5% in government offices in 2006. In the last summer, the Administration was able to achieve a 2.3% reduction in electricity consumption by maintaining the room temperature of Government offices at 25.5°C. Further reduction in electricity consumption could be achieved with the cooperation of the private sector.

35. Mr CHU Hon-keung/FOE stressed that any reduction in energy consumption as a result of energy conservation should not be used as an excuse by the two power companies to increase tariffs. Dr Bill BARRON/Civic Exchange expressed disappointment that the Consultation lacked the requirements for power companies to assist consumers in energy conservation. He pointed out that in the United States, power companies would set up energy services companies to assist in the implementation of energy conservation measures and ensure compliance with emission reduction targets.

36. Before concluding, the Chairman reminded members that the Panel on Economic Services would discuss the Consultation Paper at its meeting on 30 March 2006.

V. Any other business

37. There being no other business, the meeting ended at 4:35 pm.

Council Business Division 1
Legislative Council Secretariat
21 April 2006