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Panel on Economic Services

Minutes of special meeting
held on Thursday, 30 March 2006 at 10:45 am
in the Chamber of the Legislative Council Building

Members present	**:**	Hon James TIEN Pei-chun, GBS, JP (Chairman) Hon Jeffrey LAM Kin-fung, SBS, JP (Deputy Chairman) Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP Dr Hon David LI Kwok-po, GBS, JP Hon Fred LI Wah-ming, JP Hon CHAN Kam-lam, SBS, JP Hon SIN Chung-kai, JP Hon Howard YOUNG, SBS, JP Hon LAU Chin-shek, JP Hon Miriam LAU Kin-yee, GBS, JP Hon Abraham SHEK Lai-him, JP Hon Vincent FANG Kang, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon Ronny TONG Ka-wah, SC Hon Albert Jinghan CHENG Hon KWONG Chi-kin Hon TAM Heung-man
Members attending	:	Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP Hon Emily LAU Wai-hing, JP Hon WONG Kwok-hing, MH Hon LEE Wing-tat Dr Hon KWOK Ka-ki

Members absent	:	Dr Hon LUI Ming-wah, SBS, JP Hon CHIM Pui-chung
Public officers attending	:	Mr Stephen IP Secretary for Economic Development and Labour Mr Howard LEE Deputy Secretary for Economic Development and Labour (Economic Development) Miss Emmy WONG Principal Assistant Secretary for Economic Development and Labour (Economic Development) Mr Harry LAI Chief Electrical and Mechanical Engineer (Electricity Team) Mr Keith KWOK Permanent Secretary for Environment, Transport and Works (Environment) Mr TSE Chin-wan Assistant Director of Environmental Protection (Air Policy)
Attendance by invitation	:	Mr C T WAN Director & General Manager (Corporate Development) The Hongkong Electric Co., Limited Mr Neil D McGee Group Finance Director The Hongkong Electric Co., Limited Mr Steve NG Deputy Chief Accountant The Hongkong Electric Co., Limited Mr S H CHAN Planning Director CLP Power Hong Kong Limited Mr Richard CHU Business Strategy Manager ExxonMobil Energy Limited

Clerk in attendance	:	Ms Connie SZETO Chief Council Secretary (1)6
Staff in attendance	:	Ms Debbie YAU Senior Council Secretary (1)1 Mr Anthony CHU Council Secretary (1)2 Ms Michelle NIEN Legislative Assistant (1)9

Action

I. Future Development of the Electricity Market in Hong Kong — Stage II Consultation

(LC Paper No. CB(1)1187/05-06(01) — Information paper provided by the Hongkong Electric Company Ltd.

LC Paper No. CB(1)1187/05-06(02) — Information paper provided by the CLP Power Hong Kong Ltd.

LC Paper No. CB(1)1187/05-06(03) — Administration's response to questions raised by Hon SIN Chung-kai and Hon Fred LI Wah-ming (LC Paper No. CB(1)1187/05-06(04))

LC Paper No. CB(1)1202/05-06(01) — The Hongkong Electric Company Ltd's response to questions raised by Hon SIN Chung-kai and Hon Fred LI Wah-ming (Chinese version only) (LC Paper No. CB(1)1187/05-06(05))

LC Paper No. CB(1)829/04-05(01) — Information paper on "Future development of the electricity market in Hong Kong : Stage I consultation" provided by the Administration (with public consultation paper annexed)

LC Paper No. CB(1)626/05-06(01)	—	Information paper together with the Consultation Paper on Future Development of the Electricity Market in Hong Kong – Stage II Consultation provided by the Administration
LC Paper No. CB(1)1187/05-06(04)	—	Letter dated 23 March 2006 from Hon SIN Chung-kai and Hon Fred LI Wah-ming to the Panel Chairman (Chinese version only)
LC Paper No. CB(1)1187/05-06(05)	—	Letter dated 23 March 2006 from Hon SIN Chung-kai and Hon Fred LI Wah-ming to the Hongkong Electric Company Ltd. (Chinese version only)
LC Paper No. CB(1)1187/05-06(06)	—	Letter dated 23 March 2006 from Hon SIN Chung-kai and Hon Fred LI Wah-ming to the CLP Power Hong Kong Ltd. (Chinese version only)
LC Paper No. CB(1)1226/04-05	—	Minutes of meeting of the Panel on Economic Services held on 28 February 2005
LC Paper No. CB(1)953/05-06	—	Minutes of meeting of the Panel on Economic Services held on 23 January 2006
LC Paper No. CB(1)1187/05-06(07)	—	Background brief on "Future development of the electricity market in Hong Kong" prepared by the Legislative Council Secretariat)

Members noted that the following papers were tabled at the meeting:

(a) The CLP Power Hong Kong Ltd's response to question raised by Hon SIN Chung-kai and Hon Fred LI Wah-ming (LC Paper No. CB(1)1187/05-06(06); and

(b) Submission on "Towards a Sustainable and Open Electricity Market" provided by Civic Party.

(*Post-meeting note*: The above papers were circulated to members vide CB(1)1215/05-06 on 31 March 2006.)

2. The Chairman advised that the special meeting was held pursuant to the request of Mr SIN Chung-kai and Mr Fred LI that the Panel on Economic Services (ES Panel) should meet with the Administration and the two power companies before the Stage II Consultation on the Future Development of the Electricity Market in Hong Kong (Stage II Consultation) ended on 31 March 2006. The Chairman invited the Hongkong Electric Co., Ltd. (HEC) and CLP Power Hong Kong Ltd. (CLP) to present their views on the Stage II Consultation Paper.

Presentation by Hongkong Electric Co., Ltd.

3. With the aid of powerpoint, Mr C T WAN, Director & General Manager (Corporate Development), HEC highlighted the salient points of HEC's response to the Stage II Consultation Paper, as follows:

(a) HEC supported the policy objectives of Government's energy policy of ensuring the public could enjoy reliable, safe and efficient energy supplies at reasonable prices, and minimizing the environmental impact caused by the production and use of energy. As there might be conflicts among the various objectives, the Administration should clarify their relative priorities. According to results of studies and survey conducted by HEC, customers accorded top priority to safe, reliable and efficient electricity supply, followed by environmental improvement, with reasonable prices being the third;

(b) HEC had successfully achieved the above policy objectives under the current Scheme of Control Agreement (SCA) through providing excellent services to customers, charging reasonable tariff, and making continuous investment in environmental projects; and

(c) The proposals in the Stage II Consultation Paper failed to provide a coherent regulatory structure capable of meeting the above policy objectives. In particular, the proposed reduction in the duration of agreement and permitted rate of return would introduce an unacceptable level of regulatory risk and would likely disincentivise investment by power companies. Many of the proposals (most notably the environmental requirements) were under-developed and were likely to work against the above policy objectives. Moreover, the proposals envisaged a total overhaul of the existing market structure without providing any detail or considering the adverse impacts that would cause. Furthermore, no cost-benefit analysis of the proposals had been provided.

(*Post-meeting note*: The powerpoint presentation material was tabled at the meeting and circulated to members vide CB(1)1215/05-06 on 31 March 2006.)

Presentation by CLP Power Hong Kong Ltd.

4. Mr S H CHAN, Planning Director, CLP Power Hong Kong Limited gave a powerpoint presentation on CLP's responses to the Stage II Consultation Paper, as follows:

(a) CLP supported the Administration's energy policy objectives to ensure the public could enjoy reliable, safe and efficient energy supplies at reasonable prices, and to minimize the environmental impact caused by the production and use of energy. It was important to ensure that these objectives could be met in a long-term sustainable manner;

(b) CLP had been charging customers reasonable and value for money tariffs, as recognized by the tariff comparison with other metropolitan cities. It had implemented many measures, such as LNG, emission control facilities, use of extra-low sulphur coal and energy conservation, to reduce emission under the "Manifesto on Air Quality and Climate Change". Further improvement required collaborating efforts from concerned authorities in improving the regional area air quality in the Pearl River Delta Area. To maintain a stable supply of natural gas for the generation of electricity, CLP planned to construct a liquefied natural gas (LNG) receiving terminal in Hong Kong. Moreover, CLP had made investments in renewable energy (RE) projects with the objective to achieve 5% of CLP Group's total generating capacity from RE by 2010;

(c) As regards proposals in the Stage II Consultation Paper, CLP supported the continuation of SCA under a bilateral agreement to meet the Government's policy objectives but considered that there were flaws in the following areas –

- Environmental disincentives
  There was a lack of clear energy policy on issues such as a balanced fuel mix for power generation. Environmental improvement investments on coal-fired units were disincentivised with a lower rate of return which was inconsistent with the objective to reduce emission. Moreover, emission targets could be set unilaterally by the Government without reference to practicability;

- Unclear plans to migrate to a competitive market

Government's unclear policy in introducing new players could result in disorder in the market and compromise supply reliability;

- Duration of the regime too short
  The proposal to reduce the duration of the regulatory regime to 10 years failed to recognize the long-term nature of electricity industry, where asset lives were in the order of 30 years or more; and

- Inadequate incentives to encourage appropriate investments
  The proposal to lower the return to 7% to 11% would cut shareholder value substantially. Furthermore, the environmental disincentives, unclear plans for transition to a future competitive market, and shorter duration resulted in a material increase in risk. Such imbalance in business risk and reward would discourage necessary investment and compromise reliability.

(*Post-meeting note*: The powerpoint presentation material provided by CLP was tabled and circulated to members vide CB(1)1215/05-06 on 31 March 2006. CLP's formal responses to the Stage II Consultation Paper was circulated to members vide LC Paper No. CB(1)1237/05-06 on 4 April 2006.)

Initial response by the Administration

5. The Secretary for Economic Development and Labour (SEDL) advised that the Administration had so far received some 10 000 submissions in response to the Stage II Consultation Paper. As regards the relative priority of the Administration's energy policy objectives, he stressed that they were equally important. The Administration would consider the views received in the Stage II Consultation carefully and discuss with the two power companies their concerns in finalizing the post-2008 regulatory arrangements for the electricity market in Hong Kong.

Discussion

Permitted rate of return

6. Noting that the two power companies did not accept the proposed reduction in the permitted rate of return to 7% - 11%, Mr Fred LI considered that the proposed rate could be further reduced by excluding investment on emission reduction facilities from the rate base. He called on the Administration to remain firm in negotiating with the power companies. In this regard, Mr WONG Kwok-hing also considered that a single-digit rate of return was in the best interest of the public. He noted from media reports about the tense relationship between the Government and the two power companies and urged the Administration to stay assertive in safeguarding consumers' interests.

7. Referring to the motion on the opening up of the electricity market carried at the Council meeting on 15 February 2006, Ms Emily LAU was disappointed to note that HEC paid no regard to Members' views and insisted on its position when attending the meeting of the Panel on Environmental Affairs (EA Panel) held on 27 March 2006. Noting that the Administration would face difficulty in the negotiation with the two power companies, Ms LAU enquired how Members could assist in the process so as to ensure the public could continue to enjoy safe and reliable electricity supply at reasonable prices.

8. SEDL stressed that the proposals in the Stage II Consultation Paper had been carefully drawn up taking into account the views received during the Stage I Consultation. He believed that stakeholders, including the public, Members, and the two power companies, had all formed their own views on what the reasonable level of investment return should be and whether there was room for tariff reduction. The Administration was fully aware of Members' views and concerns expressed at the motion debate on 15 February 2006, including the "polluters-pay" principle and the responsibilities of the power companies in tackling air pollution. SEDL assured members that the Administration would take into account all views received in the Stage II Consultation in finalizing the proposals, including drawing up a reasonable rate of return. He believed that in the present-day business environment, the proposed permitted rate of return should provide the power companies with a reasonable investment return. He explained that the Government and the power companies had maintained a working relationship and he considered that a little bit of tension between the two sides during the negotiation process was normal.

9. Miss Mandy TAM pointed out that while the existing approach in determining the permitted rate of return could help encourage continuous investment and lower investment risks, it would encourage excessive and unnecessary capital investment and lead to higher tariffs. She expressed concern that the power companies was allowed to enjoy a rate of return irrespective of their performance and efficiency. Miss TAM urged the Administration to devise a mechanism capable of adjusting the rate of return both upward and downward taking into account the performance and efficiency of the power companies.

10. The Deputy Secretary for Economic Development and Labour (Economic Development (DS/ED) remarked that every economic regulatory approach had its pros and cons. The asset-based approach had proved effective in ensuring a safe and reliable supply of electricity to the public. The Administration was mindful of the concern that the approach might encourage excessive investment and had already included in the Stage II Consultation Paper a number of proposals to further tighten regulation in this regard. As for the performance of the power companies, DS/ED pointed out that the Stage II Consultation Paper proposed to adopt a two-pronged approach, using fixed assets and performance as the base for determining return. Under the proposed performance-based approach, the power companies would be provided with financial incentives for improved performance in operational

efficiency, service quality, supply reliability and increased use of RE. On the other hand, disincentives would be included to discourage under-performance by the power companies.

11. On the concern about the permitted rate of return, Mr C T WAN of HEC advised that the current SCAs were already capable of adjusting the electricity tariffs upward and downward to avoid excessive return to the power companies. However, such a mechanism had unfortunately been shadowed by the persistently high fuel costs. He re-iterated that the current economic regulatory regime for the electricity market had been working well in ensuring a reliable energy supply with due regard to environmental protection. He said that for the past decade, HEC was able to increase its productivity by 70% and improve its operational efficiency. Moreover, HEC had adjusted its last five-year financial plan in accordance with prevailing economic condition by lowering its investment in fixed assets to avoid excessive capacity. He also highlighted the cost-reflective nature of electricity tariff where there would be little room for reduction in tariff with increasing production cost. Mr S H CHAN of CLP said that the power companies would welcome discussion with the Administration to work out an objective and fair tariff adjustment mechanism that could reflect the costs of electricity production including investment and fuel costs.

12. Referring to CLP's plan to build a LNG receiving terminal in Hong Kong, Mr Fred LI asked whether CLP had considered acquiring LNG from the Mainland, which was the current practice adopted by HEC and the Hong Kong and China Gas Company Limited (HKCG). He expressed concern that the terminal would increase the fixed assets of CLP and considered if CLP decided to pursue the plan, the capital cost involved should be excluded from the calculation of fixed assets.

13. Mr S H CHAN of CLP explained that since 1996, CLP had been importing natural gas directly from the Yacheng gas field for use by the Black Point Power Station. As supply from the Yacheng gas field was depleted earlier than expected and would last until early next decade, CLP had to secure new supply sources of natural gas. The gas supply from Guangdong LNG Terminal had already been allocated to existing customers including HEC and HKCG and had no sufficient capacity to meet CLP's demand. In this regard, CLP planned to construct a LNG receiving terminal in Hong Kong to import natural gas from different sources and was undertaking an environmental impact assessment (EIA) study associated with the project. The actual capital cost for the project would be largely dependent on the selected site for the terminal. According to overseas experience, investment for similar project involved huge capital cost ranged from US$600 to US$800 million. Mr CHAN said that as the project cost would be appropriated over 20 to 30 years, the estimated annual capital expenditure would be insignificant and hence the impact on tariff would be minimal.

14. Noting that HEC proposed to construct a new LNG-fired unit (L10), Mr Fred LI expressed concern that the infrastructure would boost the fixed assets of HEC and might lead to increase in tariff. With a view to meeting the load growth without increasing the fixed assets, Mr LI suggested that HEC should consider

acquiring surplus electricity from CLP which was currently selling surplus electricity to the Mainland.

15. Mr C T WAN of HEC explained that the proposed L10 was to meet the anticipated load growth beyond 2008 as well as the emission reduction requirements specified in the Specified Process Licences (SPLs). HEC considered that in stipulating the emission caps, the Administration had failed to take into account the practicability of the power companies in meeting the emission caps. On Mr Fred LI's suggestion for HEC to acquire surplus electricity from CLP, Mr WAN said that this might aggravate air pollution in Hong Kong. He re-iterated that the proposal to construct L10 had been worked out with due regard to anticipated growth in demand. He assured members that HEC would continue to discuss with the Administration on the time table for commissioning L10.

16. Mr Fred LI was not convinced by HEC's explanation. In order to encourage competition between the power companies, he urged the Administration to consider adding provisions in the future bilateral agreements requiring the power companies to acquire surplus electricity from the other party before they could be allowed to invest in new generation facilities.

Fuel policy in power generation

17. Referring to HKCG's undertaking to lower its net gas charge by 5% to 10% upon the introduction of natural gas as an alternate feedstock in towngas production, Mr WONG Kwok-hing queried the claim of the power companies that tariffs might increase by 30% if natural gas alone was used for electricity production.

18. Mr C T WAN of HEC said that as he understood, HKCG had all along been using naphtha, a by-product of crude oil, for the production of towngas. Due to rising cost of crude oil in recent years, the price of naphtha and hence gas charges remained at high levels. As the cost of natural gas was significantly lower than naphtha, the increase in use of natural gas for generation of towngas would enable HKCG to pass fuel savings to its customers. However, as natural gas was much more expensive than coal, if the power companies increased the use of natural gas in power generation, there would be pressure to increase tariffs.

19. Mr S H CHAN of CLP added that the level of tariff was closely related to the fuel mix for power generation. Apart from the prices of the fuels, other factors such as investment on the associated infrastructure would also have impact on tariff. For example, if a policy to use only natural gas to generate electricity was adopted, it was necessary for the power companies to replace all coal-fired units by LNG-fired units. This would require significant capital investment in new infrastructure. In this connection, Mr WONG Kwok-hing said that gradual replacement of generation infrastructure from coal-fired to LNG-fired units could minimize the impact on tariff.

20. Ir Dr Raymond HO sought the Administration's view on the desirable fuel mix for power generation and enquired about the feasibility of using natural gas alone in power generation given the serious pollution problem cased by coal-fired units and constraints of using nuclear energy and RE in Hong Kong.

21. DS/ED highlighted the important role played by the electricity industry in environmental protection. Regulation of the environmental aspects related to power generation was enforced by the Environmental Protection Department (EPD) and power companies would be penalized for failing to meet the emission caps specified in the SPLs. He pointed out that the emission reduction facilities to be installed by the power companies would help reduce emissions from coal-fired units. The Permanent Secretary for Environment, Transport and Works (Environment) said that EPD had offered advice to help the power companies to comply with the emission standards. He added that the Government would not dictate the fuel mix for electricity generation so long as the power companies could meet the emission caps. This approach could provide flexibility to the power companies in meeting the environmental requirements through adoption of any cost-effective technologies to be developed in future.

22. On the feasibility of using natural gas as the single fuel for power generation in Hong Kong, Mr S H CHAN of CLP said that the suggestion might put supply reliability in doubt. Due to price volatility of natural gas in the global fuel market, he cautioned about the impact of the suggestion on tariff. He added that in line with other advanced economies in Europe, the United States, South Korea, Japan and Taiwan, CLP had been implementing a fuel diversification strategy by using about one-third each of coal, nuclear energy and natural gas in electricity generation since the 1990s. Mr C T WAN of HEC added that according to some international organizations, the world's reserves of coal and natural gas could meet demand for 250 years and 45 years respectively. The deployment of natural gas alone for power generation would accelerate its exhaustion.

Use of renewable energy in power generation

23. On the development of RE, Mr SIN Chung-kai noted that many families in Japan had installed solar panels to generate power for household use and customers were provided with access to power grids and buy-back incentives. He also noted that in Hong Kong, some Government departments and schools had installed similar devices to encourage the use of RE. Mr SIN enquired whether the two power companies could consider allowing small-scale RE suppliers to access their power grids.

24. Mr S H CHAN of CLP said that small RE suppliers were allowed to connect their generating systems to CLP's power grids for back-up electricity supply. In the past few years, some Government departments and agencies such as the Science Park, and some primary schools had implemented pilot schemes involving RE sources with connection to CLP's power grids. On the suggestion of enhancing RE suppliers access to CLP's power grids, Mr CHAN said that there were related proposals in the

Stage II Consultation Paper and CLP would discuss further with the Government on the matter.

25. Mr C T WAN of HEC highlighted the topographical constraints in Hong Kong for applying solar energy in power generation. RE infrastructure also took long time to develop and involved substantial capital investment. By way of illustration, it took about 40 years for the Electrical and Mechanical Services Department to have its $16 million solar energy plant to break even. Mr WAN expressed doubt on the benefits of introducing more RE sources due to its high cost and unreliable nature in electricity supply.

26. Mr Jeffrey LAM sought the views of the power companies on the feasibility of setting up wind turbines in Hong Kong to use wind for power generation.

27. Mr S H CHAN of CLP said that CLP had identified two sites for construction of wind turbines and was undertaking related feasibility studies. Consideration had also been given to the feasibility of building wind farm offshore. However, it was necessary to address concerns about negative visual impact of the facilities and impact on sea ecology as construction would involve large-scale marine works.

28. As part of HEC's effort to promote public awareness and understanding of the use of RE in power generation in Hong Kong, Mr C T WAN of HEC said that HEC had commissioned its 800-kw wind power station on Lamma Island on 23 February 2006. Since operation, the daily output of the plant differed greatly from 11 to 136 000 units, reflecting the unreliable nature of wind energy as a source in power supply. Taking into account the investment and operational costs of associated infrastructure, the basic cost of wind energy was about $1.1 per unit, which was far higher than that of conventional generation.

29. Ir Dr Raymond HO considered that the Government's target of having 1% to 2% of the local power needs to be met by RE by 2012 too low. DS/ED explained that the target was set in the First Sustainable Development Strategy for Hong Kong promulgated in May 2005, which was drawn up after taking into account the topographical constraints of Hong Kong and wide public consultation.

Duration of the future bilateral agreements

30. Mr WONG Kwok-hing did not agreed with the views of the two power companies that the proposed reduction in the agreement term to 10 years and permitted rate of return to 7%-11% would introduce an unacceptable level of regulatory risk. He considered that with a long history of development, the two power companies had in fact been making stable profits.

31. Mr S H CHAN of CLP highlighted that asset lives of electricity industry usually lasted beyond 30 years. During such a long period, the power companies had to bear substantial investment risks. Moreover, the project lead time could take seven

to eight years. Very often, international fuel suppliers demanded for long term purchase commitments of over 20 years, involving tens of billions of dollars. As such, a 10-year agreement had failed to recognize the long-term nature of the electricity industry. Mr CHAN re-iterated that fuel diversification strategy had helped CLP in managing risks and controlling cost, and hence stabilize tariff and maintain stable return.

32. Mr C T WAN of HEC said that the serviceable span of HEC's electricity infrastructure, investment of each of that could cost over $1 billion, lasted over 30 years. The proposal to curtail the duration of the agreement to 10 years had failed to provide a certain operating environment for the power companies. In particular, this would discourage long-term investment by the companies and increase their operation and investment risks.

Market liberalization

33. Mr Ronny TONG referred to the submission of Civic Party tabled at the meeting and highlighted the need for the Administration to formulate a comprehensive energy policy for the future development of the electricity market in Hong Kong. He enquired whether the Administration would formulate an overall energy policy for public consultation. Mr TONG further considered that while the Stage II Consultation Paper had put emphasis on economic issues relating to the regulatory regime, it had not adequately addressed concerns about liberalization of the electricity market and the need for the electricity industry to enhance environmental protection measures. To enable the two power companies and potential suppliers to make necessary preparation, Mr TONG said that a firm time table on market liberalization with details in respect of the extent of competition, level of investment and return, environmental requirements etc. should be made available as early as practicable to create a level playing field for all suppliers. The Administration should also examine various competition issues in liberalizing the electricity market and prepare the necessary legislative framework.

34. Sharing Mr Ronny TONG's views, Mr C T WAN of HEC stressed the importance of ensuring a level-playing field for all suppliers in the market and the need for all suppliers to bear the responsibility in protecting the environment.

35. Mr S H CHAN of CLP agreed that a clear energy policy was essential in considering the issue of market liberalization in the electricity industry. He said that apart from monitoring developments in the Mainland market, it was also necessary to ensure a level-playing field for all suppliers and devise transitional arrangements for the two power companies to facilitate their long-term planning.

36. While agreeing that the issues mentioned by Mr Ronny TONG were important and required careful consideration, SEDL reiterated that the Administration had already set out in the Stage II Consultation Paper clear policy objectives and there were proposals in the document addressing the various issues such as arrangements

for the two power companies to provide connection/access to their grids by other power sources and to draw up the regulatory framework which might involve setting up a separate regulatory authority in the next ten years.

37. Ir Dr Raymond HO said that potential suppliers needed to know all the requirements before entering the electricity market to ensure reliability in electricity supply. In this connection, he enquired whether the two power companies would provide back-up supply for third-party systems accessing their grids.

38. SEDL reiterated that the Administration would analyze and consider all views received in the Stage II Consultation and finalize the future bilateral agreements with the two power companies. It would then study further the details in introducing new supply sources in the electricity market. DS/ED supplemented that details of key issues relating to the introduction of new supply sources, including reliability, safety and environmental requirements, and grid access etc. had been outlined in the Stage I Consultation Paper. Relevant information was available on the website of the Economic Development and Labour Bureau.

39. In order to ensure reliable and safe electricity supply to customers, Mr S H CHAN of CLP stressed that it was crucial for the power companies to ensure that the third parties accessing the power grids could meet the requested standards in supply reliability and safety. A world class reliable power supply not only required adequate investment in power system facilities but also the adoption of best practices in equipment maintenance according to international standards, well-prepared measures to deal with contingencies and the support of a superior workforce. It was also of paramount importance to resolve issues concerning whose responsibility in the long-term development of power systems, as well as accountability in case of default in power supply. Sharing the views of Mr CHAN, Mr C T WAN of HEC highlighted that in considering grid access for third-party, HEC would take into account factors such as safety of HEC employees and the public, reliability of supply to customers, and the question of cross-subsidies to third-party.

40. Mr LEE Wing-tat expressed concern about repeated criticism by the two power companies on the failure for the Government to put in place a clear energy policy for the electricity market. He said that the public would welcome the Government to maintain a firm stance and not to make concessions in the negotiation with the power companies. Mr LEE further queried why it would take a long time to liberalize the electricity market in Hong Kong.

41. SEDL assured members that the Government welcomed views and constructive criticisms of the public and the stakeholders. He reiterated that the Administration had put in place an energy policy with the objectives to ensure the public could enjoy reliable, safe and efficient energy supply at reasonable prices, and to minimize the environmental impact caused by the production and use of energy. He reassured members that with the support of the public and Members, the Administration would work to its best endeavour in the negotiation with the power

companies to secure the best deal for the interest of the public. On further liberalization of the electricity market, SEDL emphasized the need to adopt a prudent approach as overseas experience had revealed the importance of taking due care in introducing new supply sources to the electricity market, in particular the need to ensure supply reliability. The Administration had to be cautious in working out an appropriate regulatory framework for the market.

42. Mr Jeffrey LAM expressed concerned about the prospect of importing electricity from Guangdong for supply to Hong Kong, in particular whether such proposal would be approved by the relevant Mainland authorities when the province was still facing a serious shortage in power supply.

43. SEDL assured members that the Administration would continue to monitor closely developments in the electricity market in Guangdong in exploring the feasibility of importing electricity from the province to Hong Kong. It would also enhance liaison with the relevant Mainland authorities in tackling possible technical constraints before deciding on the way forward. Meanwhile, the Government would prepare the ground for possible new supply sources from the Mainland and work out necessary requirements for new suppliers.

44. Mr S H CHAN of CLP noted that although the electricity supply situation in Guangdong would improve in the next few years, there were still uncertainties in development. He agreed that the Administration should continue to monitor closely developments in the South China electricity market before making a decision on the way forward.

Environmental performance of the power companies

45. Ms Emily LAU urged CLP to expedite progress of the EIA study associated with the construction of the LNG receiving terminal in Hong Kong and submit the report to the Government for consideration as early as possible to enable CLP to meet the 2010 emission reduction targets. Noting that the terminal might affect the vicinity area, Ms LAU urged the Administration to consider implementing remedial measures to address residents' concern. She added that CLP should step up effort in reducing emission in power generation with a view to tackling air pollution problem.

46. Mr S H CHAN of CLP highlighted CLP's efforts and achievements in reducing emission in the past years by adopting balanced fuel-mix, using extra-low sulphur coal in power generation and planning to install advanced emission reduction facilities. As regards the EIA study for the LNG project, Mr CHAN said that CLP planned to submit the said report by mid 2006.

47. Referring to complaints lodged by fishermen about damage of fishing nets and loss of catch caused by a HEC's offshore infrastructure project near Lamma Island, Ms Emily LAU asked whether HEC had undertaken EIA study for the project. In this

connection, she also highlighted the importance for the power companies to take measures to minimize sea pollution in the generation of electricity production.

48. Mr C T WAN of HEC said that HEC had conducted EIA for the project which involved the laying of a 93-km pipeline in the seabed from Shenzhen to Lamma Island. In order to protect the pipeline in the drop-anchor zone, HEC was required to dump boulders over the pipeline in that zone. Noting the concern raised by the fishing industry, subject to the outcome of an independent investigation, HEC would take appropriate remedial measures to follow up the matter. Mr WAN further said that HEC would make its best endeavour to reduce emission in the coming years with a view to meeting the 2010 emission reduction targets.

Follow-up action

49. Mr SIN Chung-kai noted that the two power companies had included in their presentation material information on their respective ranking positions among major markets regarding tariff levels and environmental performance. He asked whether the Administration had complied relevant information to facilitate comparison on the levels of investment and rates of return of the power companies with those of electricity companies in comparable overseas markets. He opined that such information would be helpful in enhancing public understanding on related issues. Mr Fred LI shared the view. SEDL said that it was difficult to draw direct comparison on the above figures among different cities or electricity suppliers. In this connection, the Chairman said that the Panel could invite the Research and Library Services Division (RLSD) of the Legislative Council Secretariat to compile relevant information for members' reference. In this regard, SEDL said that the Administration could provide assistance if necessary. DS/ED added that information on electricity tariffs of Hong Kong and other major cities was provided in the Stage I Consultation Paper.

> (*Post-meeting note*: RLSD was subsequently requested to provide an information note on the subject referred to in paragraph 49.)

Way forward

50. Mr SIN Chung-kai thanked the representatives of the two power companies for attending the meeting and hoped that they could continue to attend meetings of the Panel to exchange views with members on various issues relating to the future development of the electricity market in Hong Kong. Ms Emily LAU said that as the subject matter involved both economic and environmental issues, the ES Panel and the EA Panel had held separate meetings with the Administration and the two power companies to discuss their respective areas of concern. Ms LAU opined that the subject should be discussed in a single forum so that Government officials, deputations and stakeholders would not have to attend the meetings of separate committees. As such, she welcomed the arrangement for the ES Panel to hold special meetings at regular interval to follow up on the matter. The Chairman said that the ES Panel would take the lead in following up the subject by holding monthly special meetings and would invite all interested Members, in particular members of the EA Panel, as well as representatives of the Administration and the power companies to attend the meetings.

Date of next meeting

51. To allow sufficient time for the Administration to analyze and consider the large number of submissions received in the Stage II Consultation, members agreed to hold the next special meeting on Monday, 29 May 2006, at 2:30 pm. The purpose of the meeting was for the Administration to report the outcome of the Stage II Consultation and brief members on the proposed way forward. On the public views received, Ms Emily LAU requested the Administration to present the submissions by categories, such as submissions in standard letters or formats, and provide the number of submissions received in each category.

II. Any other business

52. There being no other business, the meeting ended at 12:50 pm.

Council Business Division 1
Legislative Council Secretariat
16 June 2006