# LNG Receiving Terminal: An Unnecessary Scheme

## Position paper by the Living Islands Movement

### Introduction: Six key points

1. The proposed project is a misuse of the Scheme of Control, as it is designed to add to the Exxon/CLP asset base in Hong Kong and so increase their financial returns at the expense of Hong Kong consumers. It will also be at a heavy cost to our environment in building a destructive industrial plant in a Marine Park, even when there are good alternatives.

2. It will add two more layers (LNG supply and processing) to Exxon/CLP's existing vertically integrated monopoly for electricity generation, transmission and sales in Hong Kong. We do not accept that continuing the outdated colonial system, with its unconscious collusion between bureaucrats and vested interests is the right way to ensure security of electricity supply in Hong Kong any longer.

3. Once exclusive permission is given to CLP it will prejudice any attempt to modernize the Scheme of Control and introduce much-needed competition to drive electricity prices down and encourage energy savings to ensure the Hong Kong contributes in the fight against climate change.

4. It is not needed to produce clean air as CLP promises. Gas from China burns just as cleanly and installation of FGD will radically reduce pollution from the coal-burning plant at Castle Peak in 2009-2011.

5. CLP have misled EPD and the general public into believing that it is the only way they can meet their 2010 emissions targets, and are even threatening to increase pollution if they are not granted the LNG terminal at Sokos. This is essentially blackmail and is totally unacceptable in a modern civic society.

6. There are many alternative sources of both Gas and Electricity, actual and potential, if co-operation within PRD is to be the policy, as it should. For example, for Gas, there is the nearby Huangmao Island LNG Terminal being developed by SINOPEC (this island is already blighted, unlike the Sokos), and Hong Kong Electric has just hooked up to the Guangdong-Dapeng LNG Terminal. For Electricity, there is a pending application from China Power International to supply Hong Kong, while CLP can in future reverse the current "Coals to Newcastle" arrangement of selling surplus electricity to China.

In 2007, in a modern society like Hong Kong, economic and environmental objectives cannot be incompatible, it just takes imagination and a sense of responsibility for the next generation to develop a truly sustainable energy model. The Sokos LNG terminal clearly isn't part of that.

## LNG Receiving Terminal: An Unnecessary Scheme

The Castle Peak Company (CAPCo), owned by ExxonMobil and CLP (60/40), proposes to build a LNG receiving terminal in Hong Kong. They have found that the only site suitable for this in Hong Kong is on the Soko islands off Lantau.

This paper draws from the facts that are publicly available and that concludes the only beneficiary will be ExxonMobil. The effects on Hong Kong will be to destroy a part of our dwindling natural heritage and a likely increase in electricity prices. The project has nothing to do with 'bringing blue skies'.

### CAPCo's case is unfounded

- LNG supplies from China will be coming on line in a time frame comparable to that of building a terminal. Hong Kong Electric has already laid a 93 km pipeline to Guangdong and recently started to use it. No reason has been given for not following this example;
- the need for a replacement gas supply for Black Point Power Station (BPPS) is unproven. The owners of the Yacheng field which currently supplies BPPS, CNOOC, advise that the field's life can be extended by investing in new wells;
- additional generation is not needed because demand-side growth within Hong Kong is almost non-existent and likely to fall;
- an LNG facility will not significantly improve air quality, nor help CAPCo reach proposed new air quality targets, as it is impossible to easily dispense with coal that currently accounts for 60% of CAPCo's generating capacity in Hong Kong;
- By far the greater effect on pollution will be the installation of FGD (Flue Gas Desulphurization) plant which is starting soon and will come into use during 2009 - 2011. This will reduce the pollution from coal burning ***to 5%*** of the current level. The delay in installing the FGD plant by CAPCo has not been explained;
- The "LNG for Blue Skies" advertisements by CLP appear to be intended only to mislead both the public and the government;
- CAPCo can meet the proposed new 2010 emission standards by a combination of:
  - accelerating the FGD installation at Castle Peak coal fired station currently in progress;
  - reducing external sales to China;
  - purchasing power from China;
  - assisting to curb the demand side (eg, Australia is to ban incandescent lamps).

### Alternate LNG supplies for BPPS

The options for supply of gas to BPPS include:-

- extending the life of the existing supply from Yacheng. The field owners CNOOC advise that this is readily achievable. This is the simplest option and capitalizes on existing infrastructure.
- obtaining supply from the Sinopec Zhuhai Receiving Terminal. This is being sited on an island off Zhuhai, a similar distance to BPPS as the Sokos. Sinopec

say that they can build the capacity by 2012, and have deliberately sited the terminal to facilitate supply to BPPS by submarine pipeline.

- obtaining supply from the Shenzhen Receiving Terminal at Dapeng near Mirs Bay. Phase 1 of the terminal has been commissioned, and supplies inter alia, unit 9 at Hong Kong Electric's power station at Lamma. Phase 2 at Dapeng which has yet to commence, has substantial planned capacity, and pipelines already in hand will bring the gas to Shekou, very close to BPPS from whence a short submarine pipeline could reach BPPS.

**Economics and Governance**

The following situations will be created if the project goes ahead:

- Extension of CAPCo's existing generation and distribution monopolies into the supply of LNG. The EU Competition Commission has been very scathing about the anti-competition activities of vertically integrated energy companies and called for their unbundling;
- an uneven playing field in which CAPCo is, literally, given a potentially lucrative Hong Kong terminal without due process involving open competition;
- an unbreakable monopoly because acceptance of CAPCo's Environmental Impact Assessment means that the last remaining place to build a terminal - Soko islands - will have been taken;
- CAPCo's use of the Scheme of Control (SoC) to obtain generous returns on fixed assets within HK, encourages and rewards massive capital investment ($8 Billion for the Sokos terminal) and discourages the use of cost-effective off-shore options;
- the further destruction of HK's natural heritage for the benefit of a foreign owned company;
- whilst no 'business plan' has been shown in public, the information that is available strongly suggests that the project will result in electricity prices that are higher than all the alternatives.

**The Sokos (claimed to be the *only* place to build it):**

- are a group of relatively unspoiled islands off highly scenic South Lantau;
- are intended, in the government public debated 2001 plans, to be a marine park that would, notably, include HK's signature Pink Dolphin;
- have a very high commercial fishing value;
- have a high natural heritage value and marine recreational value.
- are close to other islands in China's waters that are *already seriously spoiled* (see Google Earth at 22°07'North; 113°53'East). In 'one country', the use of one of these should not be insuperable. (see Appendix). Exxon/CLP have not pursued this idea seriously, presumably because it would not be eligible for subsidy by Hong Kong consumers under the Scheme of Control.

**<u>Conclusions</u>**

- Pollution levels will be drastically reduced by the introduction of FGD. Increasing the minority generation that uses gas will not make a marked difference. Only a complete long-term move away from coal will significantly reduce levels below those achieved with FGD.
- Referring to the supply of LNG that *is* needed, a LNG receiving terminal in Hong Kong is not necessary - LNG will be available from China following the example set by HK Electric;
- it must be concluded, therefore, that the purpose of such a terminal is part of the global growth of the sale of LNG by ExxonMobil
- Hong Kong is chosen because of the favourable terms granted to CAPCo under the SoC which, notably, will oblige CLP consumers to pay for the HK$8Bn terminal;
- it has nothing, whatever, to do with 'blue skies';
- it will create a vertically integrated power monopoly that can never be broken in the future;
- the scheme is all the more reprehensible because it will destroy part of our natural heritage.

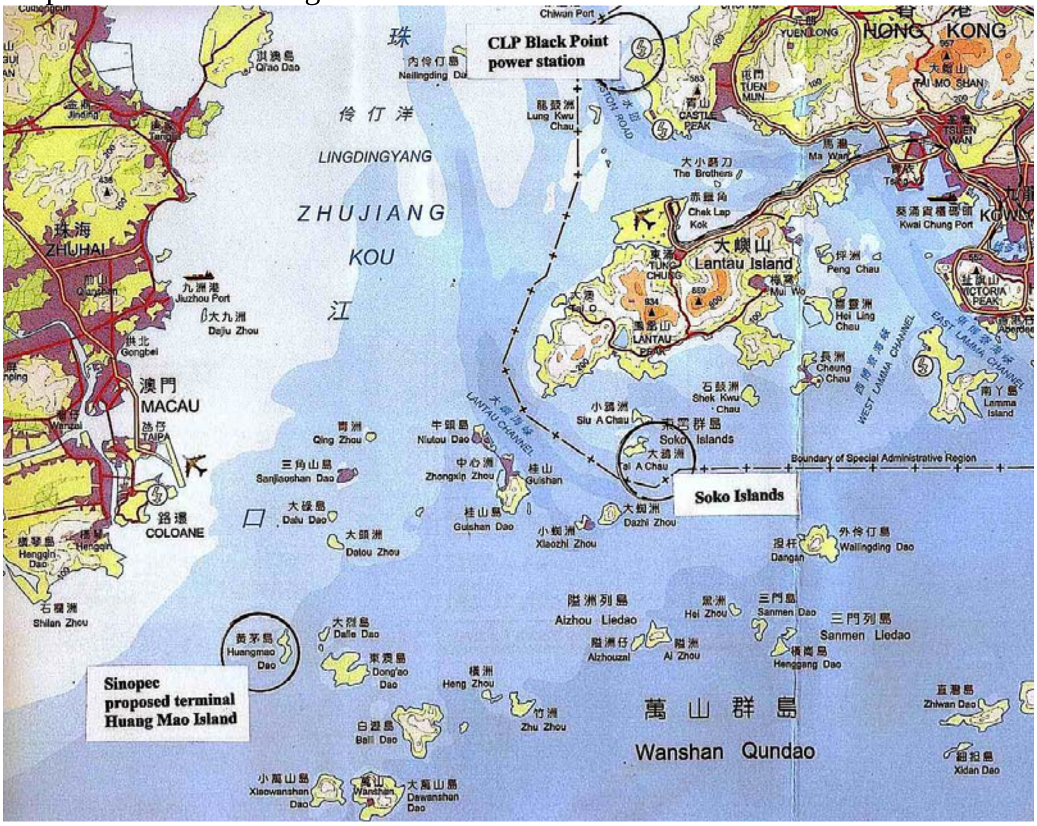
**<u>The Way ahead</u>**

– <u>CAPCo should be refused a HK terminal</u>
– CAPCo will be then obliged to seek alternatives which may include:-
  - negotiating with CNOOC for extended gas supplies from Yacheng;
  - securing gas supplies from Sinopec’s Zhuhai Terminal;
  - securing gas supplies from Shenzhen’s Dapeng Terminal.
– should there be, in actual practice, (this is highly debatable) a transitional period of reduced gas supply from Yacheng, the resulting reduction in generation capacity at BPPS might be accommodated by reducing generation demand through:-
  - temporarily suspending sales to China (now 18% of CAPCo’s output);
  - temporarily purchasing power from China (China Power International Development stands ready to deliver);
  - demand-side savings initiatives.
– In any case, introduction of FGD greatly reduces the urgency for a transition to more LNG.

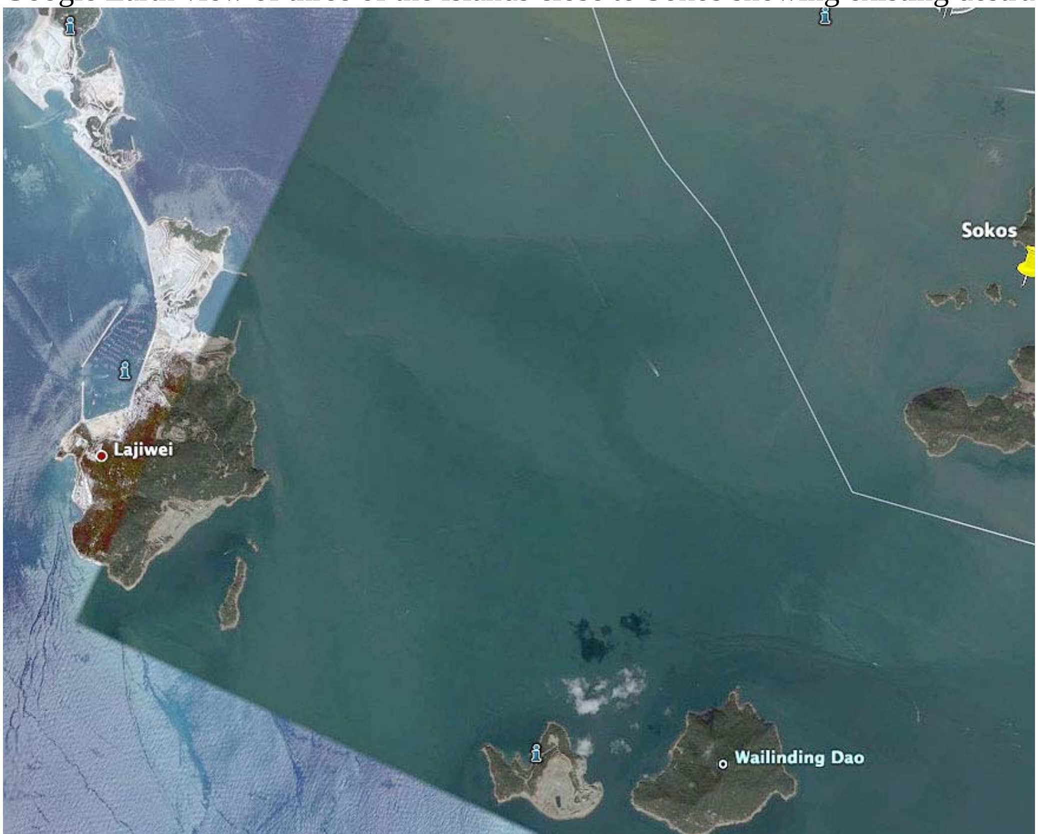
**Living Islands Movement May 2007**

**Appendix**

Map of area surrounding Soko Islands




Google Earth view of three of the islands close to Sokos showing existing destruction



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# A question of governance

Use of the Soko Islands for a liquefied natural gas plant will seal the fate of the LNG market in Hong Kong. It will forever be a monopoly run by Capco as there is nowhere else to build a competing plant.

Its HK$8 billion cost will be paid for by consumers via the Scheme of Control, thus ExxonMobil and CLP Power, the Capco partners, will enjoy a price advantage that will exclude competition. What a beautiful deal, handed to them on a plate by our government.

This is no longer a question of blue skies and dolphins – it is a governance matter of competition policy at its most fundamental level.

The government is giving in to bullying of a US oil major, which is saying "give us what we want or we turn up the pollution". This does not sit well with our chief executive's promises of strong and firm government.

Capco says they cannot build it in China "because they cannot trust the Chinese" – a most strange statement after 10 years of "one country, two systems".

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