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20 November 2012

Mr Derek Lo
Clerk to Panel
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Lo,

Panel on Economic Development
Meeting on 26 November 2012
Scheme of Control Agreements 2013 Mid-term Review

Thank you for your letter of 14 November 2012 forwarding the suggestions from “反核之眾(聯盟)” on fuel mix for power generation.

The current Scheme of Control Agreements (SCAs) signed between the Government and the two power companies run for a term of ten years and will expire in 2018. The SCAs stipulate clearly that the Government and the two power companies shall have the right during 2013 to request modification of any part of the current SCAs, and mutual agreement is needed before implementing any proposed modification.

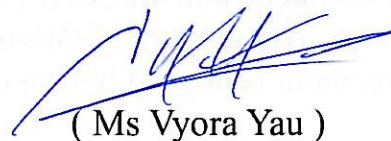
The Government is making preparation for an interim review of the SCAs with the two power companies respectively in early 2013 in accordance with the SCAs. We are currently engaging experts, academics,

green groups and other stakeholders on this subject and relevant energy matters. We will listen to the views of Members of the Panel on Economic Development of the Legislative Council before the interim review formally commences, and will continue to collect and study the views from various parties.

The SCAs provide the framework for the Government to regulate the power companies and monitor their corporate affairs, including setting out the obligations of the power companies, the returns for shareholders and the arrangements by which Government monitors the power companies' financial affairs. The SCAs do not regulate the fuel mix for power generation by the companies. Hence, the related discussion does not fall within the scope of the interim review.

In order to reduce the carbon emissions from power generation and to combat climate change, we proposed in the public consultation document on "Hong Kong's Climate Change Strategy and Action Agenda" in September 2010 to enhance our fuel mix by 2020 by substantially reducing the reliance on fossil fuels, which are highly carbon-emitting, gradually retiring existing coal-fire generating units, and increasing the share of non-fossil, clean and low-carbon fuels, including importing more nuclear energy. While we were consolidating the views received during the public consultation exercise, the Fukushima nuclear incident took place as a result of the earthquake and tsunami hitting northeast Japan. Following the incident, various sectors in the community have different views on the application of nuclear energy. While various fuel sources each have its own merits and demerits, we will strive to strike a balance among the considerations of safety, reliability, environmental protection and affordability, in working out a proposal of the future fuel mix for Hong Kong.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Vyora Yau', written over a horizontal line.

(Ms Vyora Yau)

for Secretary for the Environment