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From: Tu law
Date: Friday, May 29, 2015 01:25PM
Subject: Public Consultation on Hong Kong Electricity Market Development

Dear Counselors,

29th May, 2015

Re. Public Consultations on Hong Kong Electricity Market Development

Hong Kong (HK) has no natural resources and with a land mass of 1,054km2 and of which only 25% is developed. With so little on our hand, HK is renounced as one of the world's leading financial centers, operating the seventh largest stock exchange, having HK dollar as one of the most traded currency and holding the world's densest metropolitan with over 7million of residents. All these remarkable achievements are accomplished so, are due to the sounded and steady policy, attracting and retaining world's top talents, and the steadfast policy makers.

HK government has been utilizing the low-tax-rate-and-high-land-value policy to stimulate high economic growth in "good years" as well as controlling the volatility of the Hong Kong dollar by setting a guaranteed upper and lower limit with the Hong Kong exchange rate. Since these policies are vital to the HK's sustainability, the policies are upheld against all criticism, which later these criticisms were deemed near sighted, to keep the economy growing in the long term. Similar to the two named policies, HK's 150 years of continual growth are also powered by and has rested shoulder on a power system from the two companies. The power generation companies have been exceeding and setting reliability standards for the world's leading fully developed countries from the North America and the Europe to aim at.

Unlike other public infrastructure that amount to billions of government spending, the power grid does not even cost a penny from the tax payers' hard earned income while offering power at a cost per GJ even lower than the major cities in the mainland China. All these are done possible by the Build-Own-Operate (BOO) policy covered under the current "Scheme of Control Agreement" that will soon to expire in 2018. A sustainable growing economy relies on a government that can be steadfast on sounded policies. HK government has already done a great deal to uphold the policies that allow HK citizen to experience low tax rate and high growth while limiting the volatility of our assets. HK government should take a little step further to uphold the current BOO policy by upholding the current "Scheme of Control Agreement" to secure the free resilient power systems that power the HK economy at a cost that is at an international low rate.

HK's success has also and always been attracting foreign and retaining local top talents by the opportunities, living standards and the low tax environment. Any adverse movement could hinder HK's reputations on attracting and retaining quality people. Likewise, the HK's success has also and always been powered by the two power companies with foreign and local interest. We have to recognize that private entities exist to bring synergy to the stakeholders and to earn profit. Any adverse effects on return will lower the incentive for any business to perform well. What's more, business entities could elect to retreat from HK to other locations with a higher return on investment. Therefore, adverse effects on return could negatively impact power grid's reliability that sustains the livelihood of the 7+million residents, the momentum on sustainable business growth, and HK's long lasting reputation on quality. At the same time, government might also eventually have to spend taxpayer's money on enhancing stationary back-up systems. For the betterment of HK's hard earned standing, the current "Scheme of Control Agreement" should be retained.

Good policy makers can make the right decisions despite strong near-sighted oppositions. The decision that the Legco will be making on the HK Electricity Development will also be another accomplishment from each of the counselors' whom will make the right decision. When examining the maximum potential non-guaranteed performance based returns of 9.9% on the capital investment, we have to consider where the return arises from, what is being offered for the 9.9% before we can decide on whether a maximum return of 9.9% is acceptable.

The two power generation company is offering electricity to power HK's economy and the HK 7+million residents' livelihood at a cost rate that is among the lower end of the international scale and is even lower than the major cities in the mainland China. Unlike many fully developed countries with an electricity cost rate that is significantly higher than HK's, the power grid and power generating infrastructure does not cost the HK government a penny for the full life cycle while the same system would require ongoing government expenditure to build and maintain. Furthermore HK's power system's reliability is more resilient than all other top tier financial centers in the North America and in Europe. Even more, the current 9.9% return is already adjusted from the 13% return when the "Scheme of Control Agreement" was initially agreed by all parties. As such the current maximum non-guaranteed performance based return of 9.9% is reasonable.

To conclude, sustainably fast growing financial centers and mega metropolitans requires stable and sounded policies and good hardware/software. The current "Scheme of Control Agreement" powers HK by offering one of the most resilient power system with no initial cost and an internationally low power consumption rate. Changing the current practice with not only cause a negative impact on the above, but can also put HK into a position of changing crucial policies that makes HK what it is today. Therefore, the Legco should uphold the current scheme and to put HK's 7+million residents, HK's reputations, and the 150 year long sustainable economic growth at stake. It is important for the Legco and the HK Government to ensure that HK people will continue to enjoy quality power supply in formulating the future regulatory framework.

Yours faithfully,

Patrick Law