

First Annual Work Report of the Energy Advisory Committee for the period from 15 July 2004 to 31 December 2005¹

I. Terms of Reference of Energy Advisory Committee

The Energy Advisory Committee (EnAC) is a non-statutory committee set up in July 1996 to advise the Government on energy policy, including policy matters concerning energy supply and demand, energy conservation and efficiency, and other related matters referred to it by the Government.

II. Membership of EnAC (from 15 July 2004 to 14 July 2006)

EnAC is chaired by a non-official and comprises non-official members representing different sectors of the community and official members from relevant policy bureaux and department. The Chairman and members are appointed by the Secretary for Economic Development and Labour and each term of office is for two years. The membership of EnAC from 15 July 2004 to 14 July 2006 is as follows -

Chairman

Mr. Otto POON Lok-to, BBS

Members *(in alphabetical order)*

Mr. Barry CHEUNG, JP

Dr. Larry CHOW Chuen-ho

Mr. David DODWELL (until 28 February 2005)

Prof. Peter HILLS

Dr. Joseph LAM Choi

Dr. LAM Pun-lee

Mr. LAM Wai-kwun

Mr. Dennis LAU Wing-kwong, JP

Mr. Edmund LEUNG Kwong-ho, JP

Prof. Bernard Vincent LIM Wan-fung

Dr. NG Cho-nam, BBS

Mr. PANG Yiu-kai, JP

Mr. Clement TAO Kwok-lau, BBS, JP

Mr. Justein WONG Chun, JP

¹ Subsequent annual work reports would be prepared for each calendar year ended 31 December.

Mr. Wong Kai-man, JP

Mr. Stephen YAU How-boa, MH, JP

Ms. Sylvia YAU Siu-fee, JP

Permanent Secretary for Economic Development and Labour
(Economic Development) *or representative*

Permanent Secretary for the Environment, Transport and Works
(Environment)/Director of Environmental Protection *or
representative*

Director of Electrical and Mechanical Services *or representative*

Secretary

Chief Assistant Secretary (Energy), Economic Development and
Labour Bureau

III. Major Items for Discussion / Information at EnAC Meetings held during the period from 15 July 2004 to 31 December 2005

(1) Meeting on 22 September 2004

Major Items for Discussion / Information -

(a) Use of Natural Gas as a Feedstock for Towngas Production

Members were briefed on Hong Kong and China Gas Company Limited (HKCG)'s plan to introduce natural gas as an additional feedstock to naphtha for the production of towngas in 2006. Members generally welcomed HKCG's plan. On whether HKCG might consider supplying natural gas as a fuel, in addition to using it as a feedstock, members noted that HKCG had to take into account various considerations before supplying natural gas as a fuel, such as the reliability of natural gas supply, the potential economic benefits to consumers as well as the extensive and complex network conversion works required. HKCG subsequently briefed the Legislative Council Panel on Economic Services on their [plan](#) on 25 October 2004.

² Words/phrases underlined and in blue colour denote hyperlinks to relevant websites when the annual report is published on EnAC's website.

(b) Electricity Supply in Hong Kong: Establishment Survey

Members were informed of the findings of an establishment survey conducted by the Economic Development and Labour Bureau (EDLB), with the advice of the Census and Statistics Department (C&SD), in the first half of 2004 to collect opinions of local commercial, industrial and public establishments on electricity supply in Hong Kong. The survey was conducted in response to members' suggestion to complement the earlier Thematic Household Survey carried out by C&SD in 2003 to collect opinions of households on electricity supply in Hong Kong. Members noted [the findings](#) of the survey.

(c) Invitation and Response Document by Council for Sustainable Development

The Council for Sustainable Development had issued an [Invitation and Response Document](#) in July 2004 to invite public's views on three pilot areas of sustainable development, one of which being renewable energy. The Chairman invited members to tender their views on the document to the Council for Sustainable Development.

- (d)
- (i) [Updates of Guangdong's Electricity Market](#)
 - (ii) [Loss of Electricity Supply Incident affecting United States and Canada on 14 August 2003](#)
 - (iii) [Loss of Electricity Supply Incident affecting Southern Sweden and Eastern Denmark on 23 September 2003](#)
 - (iv) [Loss of Electricity Supply Incident affecting Italy on 28 September 2003](#)

Members noted the above four papers for information.

(2) Meeting on 16 December 2004

Major Items for Discussion / Information -

- (a) Electricity Tariffs for 2005
- (i) [Presentation by The Hongkong Electric Company Limited](#)

(ii) [Presentation by CLP Power Hong Kong Limited](#)

The two power companies presented to members their respective tariff proposals for 2005, before presenting the proposals to the Legislative Council Panel on Economic Services later on the same day. Members noted the tariff proposals of the power companies.

(3) [Meeting on 19 January 2005](#)

Major Items for Discussion / Information -

(a) [Future Development of the Electricity Market in Hong Kong \(Stage I Consultation\)](#)

Members provided their views and comments on various options to be put out for Stage I Consultation for the future development of the electricity market after the existing Scheme of Control Agreements (SCAs) with the two power companies expire in 2008. In response to member's suggestion of providing an online chat room, EDLB provided a discussion forum on its website for the purpose of the consultation exercise. After taking into account members' views and comments, Government launched the [Stage I Consultation Paper](#) on 31 January 2005.

(b) [Auto-fuel Retail Market: Review of New Tendering Arrangements for Petrol Filling Station Sites and Consultancy Study on Fuel Market](#)

Members were informed of Government's plan to conduct a consultancy study on the competition situation of the local auto-fuel retail market, where the review of the new tendering arrangements for petrol filling station sites implemented since June 2003 would be subsumed under the study. Members noted that representatives of EnAC would be invited to join the Steering Committee set up for overseeing the study and EnAC would be kept informed of the study.

(4) [Meeting on 17 June 2005](#)

Major Items for Discussion / Information -

(a) Future Development of the Electricity Market in Hong Kong: Views received during Stage I Consultation

Members noted the summary of the views received during the Stage I Consultation period between 31 January 2005 and 30 April 2005. The summary of the views received was subsequently made available, vide an [information paper](#), to the Legislative Council Panel on Economic Services on 27 June 2005.

Members noted that whilst “weightings” had not been applied to the views received from individuals and different parties, separate sets of figures on the views received from individuals and different parties had been provided to give a full and fairer picture of the views received. EDLB had also uploaded all [written submissions](#) received onto its website for public information. Members also noted Government’s plan to consult the public by end 2005 on the proposed regulatory arrangements of the future electricity market, after considering the views received during Stage I Consultation.

(b) Financial Plans of the Power Companies

(i) The Hongkong Electric Company Limited (HEC) 2004 to 2008 Financial Plan

(ii) CLP Power Hong Kong Limited / Castle Peak Power Company Limited (CLP/CAPCO) 2005 Financial Plan

Members provided their views and comments on the major proposals in the Financial Plans of the two power companies, before [HEC](#) and [CLP/CAPCO](#)’s proposals in the Financial Plans were presented to the Legislative Council Panel on Economic Services on 25 July 2005.

Members raised concerns as to whether the two power companies would implement additional measures to meet the 2010 emissions reduction targets as agreed between the Hong Kong and Guangdong Governments, as the emissions

reduction measures proposed in the two power companies' Financial Plans would not be able to meet the targets in time. Members noted that Government would continue to work closely with the two power companies to study whether additional measures might be implemented having due regard to the existing SCAs. A balance must be struck between the need to reduce emissions and the need to ensure stable and affordable tariffs.

Some members considered that the estimated capital expenditure of CLP/CAPCO was on the high side and were concerned about the potential impact on tariffs. Members noted the need of the power company to make new investments in emissions reduction facilities and to provide the necessary infrastructure to ensure supply reliability. Members also noted that Government had engaged an independent consultant to examine the proposed capital expenditure to ensure that it was essential and justifiable.

Some members were concerned about CLP/CAPCO's plan to increase coal-fired generation in 2007 and 2008. Members noted that CLP/CAPCO's current gas supply from their Yacheng gas field was depleting and that CLP/CAPCO would manage the use of the remaining gas reserves to ensure that sufficient gas would be available to meet electricity demand in Hong Kong. They would also implement various emissions reduction measures as set out in the Financial Plan to minimise the impact on the environment.

(5) Meeting on 23 December 2005

Major Items for Discussion / Information -

- (a) Electricity Tariffs for 2006
 - (i) [Presentation by The Hongkong Electric Company Limited](#)
 - (ii) [Presentation by CLP Power Hong Kong Limited](#)

The two power companies presented to members their respective tariff proposals for 2006, before presenting the

proposals to the Legislative Council Panel on Economic Services later on the same day. Members noted the tariff proposals of the power companies.

There was suggestion for Government to lower the rate of return of HEC to minimise or avoid any tariff increase. Members noted that the SCA between the Government and HEC was a binding contract and Government could not unilaterally lower the rate of return of HEC.

(b) Future Development of the Electricity Market in Hong Kong (Stage II Consultation)

Members provided their views and comments on proposals on future regulatory arrangements of the post-2008 electricity market to be put out for Stage II Consultation. There was suggestion that the future electricity market should adopt a regime for determining return other than the existing rate of return regime. Some members were concerned how the existing disparity of electricity tariffs between CLP and HEC might be addressed.

There were suggestions that when introducing new supply sources from the Mainland, apart from the potential economic benefits that could be brought to consumers, Government should also consider carefully the reliability of the source of electricity supply and ensure that the electricity was generated in accordance with comparable environmental standards.

Members noted that the Stage II Consultation would last for three months. After taking into account members' views and comments, Government launched the [Stage II Consultation Paper](#) on 30 December 2005.