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Mr Wong Kam Sing
Secretary for the Environment
Environment Bureau
16/F, East Wing, Central Government Offices
2 Tim Mei Avenue, Tamar, Hong Kong

Dear Mr Wong

Electricity Tariff Revision

The Hong Kong General Chamber of Commerce has long been a supporter of the polluter-pay principle. From the environmental point of view, the Chamber fully supports stringent emission requirements for power plants. However, at the same time, Hong Kong needs a clear and effective energy policy to ensure that the territory continues to be supplied with the energy that we need with full regard to reliability, quality, social values and affordability, now and for the long term. Given the recent controversy over the revision of electricity tariff, we would like to reaffirm our views in the following paragraphs.

1. There are significant benefits for businesses and individuals alike in transitioning to a low carbon economy. The Chamber, in response to the Government's consultation on "Climate Change Strategy and Action Agenda" in 2010, has accepted the proposed carbon intensity reduction target of 50%-60% by 2020, which, though challenging, should be achievable, providing that the fuel mix strategy for electricity generation, energy efficiency and greenhouse gas ("GHG") emissions reduction measures, as well as other proposed initiatives could be attained.
2. The most critical GHG reduction measure is the revamp of the fuel mix for electricity generation, which accounts for around two-thirds of local GHG emissions. We generally agree that any reduction in coal-fired power supply is the right direction in principle. Unfortunately, while the wider community in Hong Kong needs reassurance in relation to the risks associated with the cleaner nuclear power after the Fukushima incident, the contract price of the new natural gas source is much higher than that of our currently exhausting gas source set some 20 years ago, which inevitably leads to considerable pressure on our electricity bills.
3. So far, the Government has not provided the cost impacts of implementing a climate change strategy, as well as a clear and equitable delineation of responsibilities - who should be responsible and how much should be paid. Particularly for electricity pricing, the Government has the responsibility to clearly set out the costs and benefits of different approaches, as well as whether the proposed approach is envisioned as a penalty system for overuse or a reward for investing in cleaner and more efficient technologies, so that the whole community may discuss and hopefully endorse. The success of the strategy will require a pragmatic approach to implementation, with careful consideration of the potential impacts on

businesses and the community when determining the appropriate policy measures and clear measurements of success.

4. We believe that the Government has a facilitating role in promoting demand side management (“DSM”), including energy efficiency in businesses and responsible energy consumption in the community. While DSM is a useful means to encourage energy savings, the constraints in Hong Kong include (1) lack of choices in the market, (2) inadequate information for making choices, and (3) cost disadvantage inherent in greener options compared to more readily available conventional options. Cost implications of inefficiency, as well as the practicality and acceptability of efficient low carbon alternatives are therefore the key elements of a successful transition towards a low carbon economy.

5. Electricity tariffs can conceivably be designed to achieve multiple objectives, not only covering the cost of service delivery and meeting the social needs of those who are less fortunate, but also influencing energy users towards making better energy-efficient choices. However, as any revision of the tariff structure would likely benefit some users whilst imposing higher burden on others, the success of encompassing energy efficiency as one of the objectives depends in large measure on engagement with the business sector and the wider community. We encourage more discussions among the Government, the power companies, businesses and the community to agree on the objectives to be achieved from tariff revision, and to co-develop potential options for improving the tariff structure.

6. If a progressive tariff structure, as recently discussed in the community, were to be adopted, it should be based on energy efficiency with reference to the international tariff models and local sector-relevant ranges, i.e. energy consumption per area, service unit, customer, etc, rather than simply the total amount of energy consumption. A progressive tariff must also take into account efficiencies that have already been incorporated by some users. Large businesses, buildings and premises consume more energy than small ones, but they may use energy more efficiently. In addition, larger public service organizations, such as universities, hospitals and transport providers, should not be penalized for providing more services which require higher energy consumption.

7. Therefore, any tariff revision will require careful planning, a clear set of objectives and public consensus, as well as allow time for businesses to make necessary adjustments and long-term investments. A successful transition towards a low carbon energy future cannot be achieved by businesses alone – it is a society-wide endeavour and we call on the Government to continue engaging with both business and the wider community. The Chamber has been taking the lead in bringing forward the discussion on the energy policy among our members, and we look forward to working closely with the Government and stakeholders, with a view to achieving the transition in an efficient, competent and comprehensive way.

Best regards

Shirley Yuen
CEO

c.c. The Hon Jeffrey Lam
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