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The Hon Jeffrey LAM Kin-fung, GBS, JP  
Chairman, Panel on Economic Development  
Legislative Council of the HKSAR  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Jeffrey

### **Interim Review on Scheme of Control Agreements in 2013**

In response to the invitation for public views of LegCo's Panel on Economic Development on the review of the Scheme of Control Agreements ("SCAs") between the Government and the power companies, the Hong Kong General Chamber of Commerce would like to reaffirm our position on energy policy and related issues in the following paragraphs:

#### **Energy Policy Objective**

2. The Government's energy policy objective is "*To ensure reliable supplies of energy at reasonable prices, promote its efficient and safe use, and at the same time minimise the environmental impacts in the production and use of energy*". The Chamber endorses the spirit of this statement in that energy is inseparable from the environment, and likewise, energy policy from environmental policy. **Accordingly, the Chamber fully supports stringent emission requirements for power plants, subject to the condition that 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.**

3. In addition to the above vision statement, **the energy policy should be truly comprehensive with clear philosophy and principles, as well as explicit goals and objectives to strive towards a sustainable future**, comprising the overall framework of energy policy, priority areas among economic, environmental and social concerns, respective responsibilities of the Government, power companies and energy users, an integrated approach across government departments and business sectors, energy choices at the production or consumption level, and promotion and targets for energy efficiency, with energy users being encouraged to set and meet their own targets.

## Principle of the SCAs

4. In terms of electricity generation, the existing SCAs between the Government and the power companies have incorporated incentives for renewable energy and energy efficiency, which should be recognized. Under the SCAs, the Government's current approach is to regulate and limit profits of the power companies, and to return the gains on efficiency to the public in the form of lower tariffs. **While we understand the policy intention, we have doubts over whether general tariff reduction is the best means of benefiting the public.** In fact, we could refer to the example of the Cross-Harbour Tunnel ("CHT"). When the franchise expired in 1999, the Government did not reduce the toll rates to "return the benefits to consumers". Instead, the same toll fees were applied both to regulate traffic and to contribute to the Government's General Revenue. The recent Policy Address has also proposed to alleviate traffic congestion by increasing the toll fees for CHT and reducing those for the Eastern Harbour Crossing, which is a typical administrative tool to "reduce demand not consumption".

5. **Based on a cost-to-service charging objective, tariff structures should primarily reflect the costs to serve different groups of customers.** If tariffs were to be 'flexed' to meet other objectives, these should include the importance of affordability and energy conservation. Therefore, the benefits of the more efficient use of the system should be returned to those who make the most effort in energy conservation.

6. There is a need for addressing and establishing more clearly the roles and responsibilities of both the Government and businesses in addressing societal challenges such as social inequities, which may vary depending on the sector. Given such circumstances, **the Government, businesses and the community need to explore together the best combination of policies and measures to enable each party to carry out their respective role and responsibilities in addressing the relevant societal challenges in the most effective and efficient manner.** We believe that it should be the Government's responsibility to provide a safety net to those needy families, with businesses playing a supplementary role.

7. For environmental-related challenges, there should be linkage back to public health as a priority justification. Industry benchmarking as well as information on technological development and commercial viability should also be used to support any requirements to be included in the SCAs. **An overarching environmental policy roadmap spanning the next two to four decades on would be helpful in determining the various SCA requirements needed to achieve the desired milestones over time.**

## Energy Mix

8. There are significant benefits for businesses and individuals alike in transitioning to a low carbon economy. The most critical greenhouse gas ("GHG")

reduction measure is the revamp of the fuel mix for electricity generation, which accounts for around two-thirds of local GHG emissions. We basically 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 relatively cleaner nuclear power after the Fukushima incident, the contract price of the new natural gas source is much higher than that of our exhausting gas source set some 20 years ago, which inevitably leads to considerable pressure on electricity bills.

9. 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**. For electricity pricing, the Government has the responsibility to clearly set out the costs and benefits of different approaches, so that the whole community has sufficient information to discuss and hopefully endorse a preferred approach. The success of any adopted strategy will require a pragmatic approach to implementation, with careful consideration of the potential impacts on businesses and the community, appropriate policy measures and clear measurement of success.

### **Demand-side Management**

10. Demand-side Management (“DSM”) should be encouraged not just from a carbon perspective but also for the conservation of fossil fuel resources. At the individual level, it entails changing behaviour and lifestyle choices. For business enterprises, DSM involves changes in purchasing decisions and operational measures. In both cases, the constraints are (1) lack of choices, (2) inadequate information for making choices, and (3) cost disadvantage inherent in greener options compared to more readily available conventional choices.

11. **The Government has a facilitating role in enhancing businesses’ contribution to energy efficiency**, for example, through more support in the promotion and development of energy-related industries and services, and facilitation programmes to influence businesses as well as their employees and customers to adopt energy efficient purchasing decisions and consumption behaviours.

### **Electricity Tariff Revision**

12. Electricity tariffs can conceivably be designed to achieve multiple objectives, not only covering the cost of service delivery, but also influencing energy users towards making better energy-efficient choices and managing demand at peak times, thus reducing investment which will be reflected in lower tariffs. 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 largely on the Government’s engagement with the stakeholders. **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.**

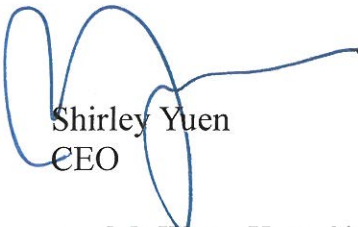
13. **If a progressive tariff structure for energy rates, as recently discussed in the community, were to be adopted, it should be based on energy efficiency with reference to the international tariff models and local sector-relevant ranges,** such as energy consumption per area, service unit, customer, 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 the cost of the infrastructure required to support them reduces as critical mass increases, and they may also be able to use energy more efficiently. In addition, large public service organizations, such as universities, hospitals and transport providers, should not be penalized for providing more services which help the society but require higher energy consumption.

### **Conclusion**

14. **Therefore, any tariff revision will require careful planning, a clear set of objectives and public consensus, as well as allowing 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 businesses and the wider community in an open and transparent process.

15. The Chamber has been taking the lead in bringing forward the discussion on the energy policy among our members. We hope you find our views useful, and we look forward to working closely with the Government and all stakeholders, with a view to achieving a satisfactory review of the SCAs.

Yours sincerely



Shirley Yuen  
CEO

c.c. Mr Wong Kam Sing, Secretary for the Environment