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### **The Challenge of Ensuring Hong Kong's Energy Supply**

Chief Executive Donald Tsang's August 28 energy deal with Beijing securing gas and nuclear power supplies to Hong Kong for the next 20 years is a landmark in the development of Hong Kong's energy policy.

In a context where we at CLP had been consistently advised for many years that Hong Kong would need to look after its own energy needs as Beijing wrestled with the very real challenge of securing reliable power for the fast-growing cities and provinces across the Mainland, this new deal represents a new, critical development in Hong Kong's energy policy, and was immediately followed by Hong Kong Government's statement that the LNG terminal project that CLP had proposed would not be approved and had to be removed from the Development Plan.

CLP welcomes Beijing's support for long-term energy supply. The task ahead is to turn good news into good results and complete the deal on behalf of the Hong Kong people – to secure for Hong Kong sufficient gas at the best possible price, and in time for us to replace our declining supplies from the Yacheng gas field in the South China Sea.

It is a measure of Beijing's good faith on this deal that we have immediately been able to begin detailed discussions with counterparts at the National Development and Reform Commission. But even with this fast start, we are going to face an acute time challenge to make adequate quantities of gas available by 2013.

Hong Kong needs new gas supplies in place by 2013 if our Black Point Power Station is to continue providing a significant portion of our power supply, reduce our reliance on coal, and enable us to meet lower environmental emissions targets, as our Government has repeatedly emphasized on every possible occasion.

As the Yacheng field depletes, the deal opens the opportunity to draw gas from three sources:

- First, from new gas fields planned to be developed in the South China Sea.
- Second, from the second east-west gas pipeline bringing gas from Turkmenistan
- And third, from an LNG terminal now to be located in the Mainland.

None of these three sources is in place today. However, let us be very clear: Hong Kong's needs are so substantial that we will need not one or two of these sources to be brought on stream, but all three.

Black Point will be using approximately 3.4 billion cubic meters (BCM) of natural gas a year by 2013. In the following decade, as demand for electricity steadily rises and as Hong Kong progressively tightens caps on emissions from local sources, consumption will potentially rise to as high as 6 BCM by around 2023. To meet this need, we have been advised that 2 BCM was planned to come from several new, but smaller, gas fields in the South China Sea to replace Yacheng. If the 2<sup>nd</sup> West-East gas pipeline can be extended to Hong Kong, we would be able to draw 1 BCM from this source. With the planned volumes of gas from these two sources, this means that a significant amount of gas will almost certainly need to be sourced from the new LNG terminal in the Pearl River Delta.

Our Government's decision to reject our proposal to build an LNG terminal on South Soko Island means we lose a four year head start, and face a challenging timetable as an appropriate Mainland site needs to be found and approved, including a rigorous Environmental Impact Assessment.

If we are to meet our targets to ensure power supply reliability over the coming decade, I can't overemphasise the critical importance of Government support and, where necessary, leadership, all the way to completion.

The MOU is a starting point for meaningful cross-border collaboration in the power sector. The implementation of the MOU and the delivery of a successful outcome for Hong Kong will depend on the effective collaboration by mainland enterprises with CLP, encouraged, enabled and stewarded by our Government and mainland authorities. CLP will play our full part.

**Andrew Brandler**

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