

Hong Kong

Business Environment and Challenges



In our Annual Report 2004, we advised that there were four major aspects of the business environment for our Hong Kong electricity business in the coming years. These remain unchanged, namely:

- the post-2008 regulatory regime;
- environmental issues related to air quality in Hong Kong and the emissions from our power stations;
- the need to progress fuel supply arrangements to succeed the gas presently sourced from the Yacheng-13 gas field in the South China Sea; and
- the overriding importance of maintaining the quality of our electricity supply in all respects, be it reliability, adequacy, customer service or tariff management.

The Hong Kong Government has recently issued its Stage II consultation paper on the future development of the electricity market in Hong Kong. The Chairman's Statement, which introduces this Annual Report, describes CLP's position in response to this consultation paper. The debate on the post-2008 regulatory regime for our business continues to have a considerable political dimension. One of the challenges that we continue to face, and which we have tackled actively over the past year, is to ensure that, in this debate, proper and informed consideration is given to the long-term technical, operational, environmental and economic implications of the choices to be made about the future of this critical industry.

The decline in Hong Kong's air quality over the past decade has meant that the discussion on the post-2008 regulatory regime has had a notable environmental dimension. We believe that the worsening trend of Hong Kong's air quality, as evidenced by the increase in the frequency and severity of days of poor visibility, may continue for some years. Although the overwhelming majority of emissions affecting Hong Kong's air quality originate from elsewhere in the Pearl River Delta, our community and our environmental and economic regulators will expect CLP to play its part in reducing emissions from our power stations – we continue to expect no less from ourselves.

The retrofitting of additional emissions control facilities at Castle Peak 'B' Power Station forms a major part of our efforts to further improve emissions performance. The

challenge will be to complete this demanding project (which involves working within a limited footprint and with complex interfaces between existing plant and new equipment) without interrupting the operation of this station, which currently contributes about one-third of CLP's electricity supply.


CLP operates with a diversified fuel mix of coal, gas and nuclear to ensure that power is available even if there are interruptions in any one fuel source. This policy of fuel diversification also means that we, and our customers, are less vulnerable to sudden and sharp rises in the price from any individual fuel source. The reserves from the Yacheng-13 gas field, which supplies Black Point Power Station, will be depleting around the turn of this decade. With limited gas resources in the region, CLP needs to continue to move forward with arrangements to import liquefied natural gas (LNG) to Hong Kong for use early in the next decade. This will also better position CLP to increase the use of gas, as opposed to coal, to meet the increase in local demand for electricity and contribute to further improvements in environmental performance.

Over the next five years, electricity demand growth is forecast to be between 2-3% per annum. We expect to benefit from continued infrastructure expansion and the steady increase of new towns and housing development in our supply area. Our sales growth forecast also takes into account the benefits of energy conservation programmes, such as Government's initiative to reduce energy consumption in Government buildings by 1.5% annually, and that modern commercial and residential appliances tend to be more energy efficient than those which they replace. We expect that electricity sales to Guangdong Province will continue as a result of growing demand, although these may reduce over time if the supply/demand situation in Guangdong moves back into balance.

We must meet the ongoing increase in demand for our services by making timely investments in our electricity systems. At the same time, we must maintain the reliability and quality of service which our customers expect and which we have a duty to provide – and in doing so, we will continue to meet the actual and potential challenges to our market from both local and regional energy providers.

Year 2006

In response to our business environment and the challenges we face, our major plans and activities in 2006 will include:

- firm and constructive engagement with Government on the post-2008 regulatory regime. Although the process is not one which we control, we will promote a satisfactory and balanced outcome to those discussions being achieved by the end of 2006 – in line with our view that the uncertainty regarding the future regulation of our business should be resolved as soon as possible, so that we can carry forward the planning and investments necessary to ensure that Hong Kong continues to have a world-class electricity system beyond 2008;
- progress on implementing our plan for the retrofit of additional emissions control facilities at Castle Peak. Phase 1 of this plan, which is scheduled for 2006 to 2008, will focus on plant relocation. This involves vacating a total floor area of over 5,000 sq. meters, with a total of five existing facilities being relocated, so that space is created for the installation of the new facilities;
- continuing to work with Government and other stakeholders to bring LNG to Hong Kong. Our aim is that, by the end of 2006, the site selection for the LNG terminal should have been concluded and the land acquisition process underway. We will move forward with negotiations with LNG gas suppliers, with the objective of having preliminary purchasing agreements in place within 2006. We will discuss with the Yacheng-13 gas suppliers the arrangements that will be necessary for us to transition from the existing Yacheng-13 gas field to imported LNG; and
- continuing to invest in our supply system and to enhance our operating skills. In 2006, there will be a strong focus on enhancing our customer service systems, such as through the implementation of an e-channel strategy to make more information available to our customers and facilitate customer self-service on the website. In addition, our Customer Relationship Management System will be upgraded to better serve customer needs. We will also complete the construction and commissioning of Unit 8 at the Black Point Power Station within budget and on schedule – thereby increasing the capability of our generating fleet to operate on gas, rather than coal. 

Beyond 2006

Our plans and activities beyond 2006 will build on the progress achieved during that year.

- on the basis that the future shape of the electricity regulatory regime will have been established by the end of 2006, we will need to evaluate the implications of any changes to the existing SoC and how the manner in which we carry on our business needs to be adapted or modified. In doing so, our objective will be to maintain the ongoing capital investment required in our business and the quality of electricity supply to our community – preserving the balance which has been maintained over many years, between the interest of our shareholders and our customers;
- phase 2 of the emissions reduction programme at Castle Peak Power Station will be undertaken – with four major emissions control facilities being installed in stages starting from 2009. In order to ensure reliable electricity supply during the entire project period, installation work of new facilities can only be carried out during the winter season, when demand for electricity is relatively lower;
- the completion of the LNG terminal and availability of LNG supply by 2010 remain crucial to our business, including with respect to both adequacy and reliability of supply and environmental performance. By 2007 we target to have the site acquired and relevant approvals finalised, so that commercial contracts can be awarded in time to tie in with work on upstream development, ship building and site construction; and
- we must maintain our excellent record on tariff management, meaning that cost control and efficiency disciplines must be tightly applied. To meet our customers' needs and to ensure their continued support for CLP as a long-term electricity supplier of choice, we need to match cost competitiveness with excellence in customer service and to further enhance the management of strategic customer accounts.