

LCQ1: Introduction of natural gas to enhance competition in gas fuel market

Following is a question by the Hon Audrey Eu and a reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (February 2):

Question:

The Hong Kong and China Gas Company Limited will introduce natural gas as a feedstock for town gas production in 2006. Regarding the introduction of natural gas to enhance competition in the gas fuel market, will the Government inform this Council:

- (a) how the use of town gas produced from natural gas compares with the direct use of natural gas in terms of energy efficiency;
- (b) whether it has regulated the use of natural gas in Hong Kong and formulated policies to encourage the introduction of natural gas; if it has, of the details; if not, the reasons for that; and
- (c) whether it has formulated measures to enhance competition in the local gas fuel market; if it has, of the details of such measures; if not, the reasons for that?

Reply:

Madam President,

(a) Distribution of piped natural gas to consumers is different from that of town gas. The town gas appliances currently used by Hong Kong consumers cannot be used for natural gas. Conversion works, including the conversion of the entire gas distribution and transmission network and the modification of the gas appliances currently used by all consumers, would be required if natural gas were to be supplied direct for use by consumers. The use of natural gas to produce town gas would require less modification works and should also allow consumers to obtain benefits from any net savings in fuel costs.

With regard to energy efficiency, the wide range of variables relating to gas production, transmission, distribution and utilisation, makes direct comparison of the two supply processes difficult. Generally speaking, supplying natural gas direct to consumers rather than using it as a feedstock to produce town gas should be marginally more energy efficient.

(b) The importation, manufacture, storage, transport, supply and use of town gas, liquefied petroleum gas (LPG) and natural gas are subject to the stringent safety regulation of the Gas Safety Ordinance (Chapter 51). The Ordinance, however, does not specify the uses to which natural gas should be put. At present, natural gas is used as one of the fuels for electricity generation. From 2006 onwards, the Hong Kong and China Gas Company Limited will introduce natural gas as an additional feedstock to naphtha to produce town gas. If natural gas were to be used directly as a fuel, we have to ensure that reliable, stable, sufficient and reasonably priced natural gas supply is available to meet the demand of consumers. The Government will facilitate, where possible, efforts by the private sector to obtain suitable sources of natural gas supply and related facilities for electricity generation or replacement of town gas.

(c) Hong Kong's gas market is an open one. Companies supplying town gas and LPG have all along been operating in a competitive market. The emergence of new gas suppliers in the local gas market, in particular those supplying natural gas directly to consumers for use as a fuel, depends on a number of factors, including the availability of reliable and stable supply sources, economic benefits and consumers' affordability.

In 1997, the Electrical and Mechanical Services Department commissioned a preliminary study on the feasibility of introducing a common carrier system in Hong Kong as a means to enhance competition in the local gas market. The study concluded that the pre-requisite for the introduction of a natural-gas based common carrier system in Hong Kong is the availability of reliable, stable, sufficient and reasonably priced natural gas supply to meet public demand. At this stage, uncertainties remain as to whether reliable and stable natural gas supply sources are available to Hong Kong. We will facilitate, where possible, efforts by the private sector to obtain suitable sources of natural gas supply and related facilities for electricity generation or replacement of town gas.

Ends/Wednesday, February 2, 2005