立法會
Legislative Council

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Legislative Council
Panel on Economic Services

Minutes of special meeting held on
Friday, 21 December 2001, at 4:00 pm
in the Chamber of the Legislative Council Building

Members present	:	Hon James TIEN Pei-chun, GBS, JP (Chairman) Dr Hon LUI Ming-wah, JP (Deputy Chairman) Hon Kenneth TING Woo-shou, JP Hon Eric LI Ka-cheung, JP Hon Fred LI Wah-ming, JP Hon Mrs Selina CHOW LIANG Shuk-yee, JP Hon CHEUNG Man-kwong Hon HUI Cheung-ching, JP Hon CHAN Kam-lam Dr Hon Philip WONG Yu-hong Hon LAU Chin-shek, JP Hon CHOY So-yuk Hon Henry WU King-cheong, BBS
Non-Panel members attending	:	Hon LEE Cheuk-yan Hon NG Leung-sing, JP Hon CHAN Kwok-keung Dr Hon YEUNG Sum Hon Abraham SHEK Lai-him, JP Hon Tommy CHEUNG Yu-yan, JP Hon Frederick FUNG Kin-kee
Members absent	:	Dr Hon David LI Kwok-po, GBS, JP Hon SIN Chung-kai Hon Jasper TSANG Yok-sing, JP Hon Howard YOUNG, JP Hon Miriam LAU Kin-yee, JP

Public officers attending : Economic Services Bureau

Ms Sandra LEE
Secretary for Economic Services

Ms Miranda CHIU
Deputy Secretary for Economic Services

Mr James WONG
Principal Assistant Secretary for Economic Services (Financial Monitoring Unit)

Mr Alex WONG
Principal Assistant Secretary for Economic Services (B)

Attendence by invitation : CLP Power Hong Kong Limited

Mrs Betty YUEN
Acting Managing Director

Ms Jane LAU
Head of Public Affairs

Mr S H CHAN
Corporate Strategy & Planning Manager

The Hongkong Electric Company Limited

Mr George C MAGNUS
Chairman

Mr K S TSO
Group Managing Director

Mr Francis L Y LEE
Director & General Manager (Engineering)

Mr Andrew J HUNTER
Group Finance Director

Mrs Minnie LI
General Manager (Human Resources & Public Affairs)

Mr Gary CHANG
General Manager (Development & Planning)

Mr Steve NG
Deputy Chief Accountant

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Ms Cindy CHENG
Senior Assistant Secretary (1)1

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I Electricity tariff for 2002

The Chairman remarked that as the pecuniary interest arising from the present item was common to the rest of the population of Hong Kong, he considered it not necessary for members to declare their interest on the item. However, should individual members wish to declare any particular interest on the item, they might do so as appropriate.

2. Mrs Selina CHOW and Mr Kenneth TING declared interest as shareholders of Hongkong Electric Holdings Ltd. Mr CHAN Kam-lam and Mr HUI Cheung-ching also declared interest as Directors of the Exchange Fund Investment Limited which had substantial holdings of the shares of the company.

The Hongkong Electric Co. Ltd's tariff adjustment 2002

3. Mr George C MAGNUS, Chairman of Hongkong Electric Co. Ltd (HEC) said that in view of the recent economic slowdown, the company had made every effort to lessen the burden on lower income customers. Under the present tariff adjustment proposal, there would be no tariff increase for approximately 70% of all its customers, and that this freeze applied to residential as well as commercial customers. The company also intended to set up a special fund next year, financed by shareholders' contributions, to provide for concessionary tariff schemes for the underprivileged. This fund would enable customers qualifying for public assistance, including the elderly, the disabled, single parent families and the unemployed, to apply for up to 50% discount on the first 200 units of electricity consumed each month. He pointed out that local and international fund managers who controlled hundreds of billions of investment funds had been very vocal in expressing serious concern over any attempt to deviate from the Scheme of Control Agreement (SCA) due to short term political and economic circumstances. The revised tariffs were the minimum possible consistent with the terms of the SCA. This legally binding contract with the Government should be honoured to ensure the rule of law.

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4. Mr Andrew J HUNTER, Group Finance Director of HEC gave a presentation on the tariff adjustment proposal of HEC for the year 2002. On average, the net tariff would be increased by 5.3%. However, for domestic customers using less than 500 units and non-domestic customers using less than 1 500 units per month, electricity charges would remain unchanged for 2002. As such, 70% of all consumers would have no increase. The proposed increase was the absolute minimum possible consistent with the SCA, having exhausted all tariff smoothing flexibility. He pointed out that electricity consumption continued to grow in line with the long term forecasts. To cater for this growth, the construction of additional power generation facilities was essential as it would ensure that Hong Kong consumers continued to enjoy an adequate and reliable electricity supply. To minimize tariff increase, HEC would continue to improve operating efficiency and productivity, and to plan its new investments carefully and effectively.

(*Post-meeting note:* The presentation materials tabled at the meeting were subsequently issued to members after the meeting vide LC Paper No. CB(1)677/01-02(01)).

5. In response to members, Mr HUNTER provided the following information in respect of HEC's tariff adjustment proposal in 2002:

Consumption (in blocks)	Domestic customers (aggregate total)	Revised tariff
150 units	20%	Not affected
300 units	48%	Not affected
500 units	70%	Not affected
700 units	82%	+$16.5 or 2.6%
1 000 units	92%	+$52.5 or 5.5%

Consumption (in blocks)	Non-domestic customers (aggregate total)	Revised tariff
200 units	25%	Not affected
800 units	52%	Not affected
1 500 units	68%	Not affected
3 000 units	79%	+$75 or 2.5%
10 000 units	92%	+$530 or 5.2%

6. Mr K S TSO, Group Managing Director of HEC added that for bulk tariff rate, the increase would be 7.6%. In view of the prevailing economic situation and that the community was still facing economic hardship, some members queried the need and rationale for HEC to raise the basic tariff so as to maintain a maximum permitted return of 13.5% on fixed assets. They requested HEC to consider deferring the tariff

increase or lowering the rate of increase, having regard to the company's substantial earnings and its societal responsibility. Some members also opined that increased interconnection between the two power companies was a practically viable alternative to constructing additional generation facilitates at the Lamma Power Station, thereby saving the need and relieving the pressure for HEC to revise its tariff from time to time. Mr Abraham SHEK however considered that as the SCA was a binding legal contract between the Government and HEC, the Government had to respect the law and hence the provisions in the SCA. Any attempt to deviate from the SCA due to short term economic circumstances would not be in the best interest of Hong Kong especially with the Mainland's accession to the World Trade Organization. A summary of the discussions was set out below.

7. Mr Fred LI expressed disappointment at HEC's decision to raise its tariff at a time when the community was still facing economic hardship. He was concerned about the tariff gap between HEC and CLP Power Hong Kong Limited (CLP), bearing in mind HEC's profit in 2000 (HK$ 5.54 billion) was already higher than that of CLP (HK$ 5.15 billion) but in terms of scale of operations and customer base, HEC was far below those of CLP. He therefore queried the need and justifications for HEC to raise its tariff to maintain the maximum permitted return of 13.5% under such circumstances. He also asked if HEC had ever considered lowering the proposed rate of increase to relieve the burden of the general public and the business community. Dr YEUNG Sum echoed the view of Mr LI and remarked that despite the company's substantial earnings, it had decided to increase its tariff at this stage resulting in serious impacts on the middle-income groups. It also reflected badly on HEC as its counterpart, CLP, had proposed to offer a package of rebates and fuel clause reduction to all its customers in the forthcoming year. He thus queried whether the permitted return was a guaranteed return.

8. In light of the difficult economic environment, Mr CHAN Kam-lam also regretted that HEC had decided to adjust its tariff at this stage, which was made at the expense of the interest of middle and low-income groups, and small and medium enterprises. He opined that even though HEC could not achieve the maximum permitted return of 13.5% in one single year, the rating of the company would not be adversely affected provided that the company had a sound foundation.

9. The Chairman doubted whether it would be a deviation from the contractual obligations of SCA if HEC failed to achieve the maximum permitted return of 13.5%. He also sought clarification from the company on the possible reaction of fund managers on a lower projected rate of return.

10. Secretary for Economic Services (SES) advised that the SCA between HEC and the Government was a legally binding agreement. Under the SCA, HEC could plan to secure revenue sufficient to achieve the permitted return. The Administration had examined HEC's tariff revision proposal in detail to ensure that it was consistent with the terms of the SCA. The Administration had also encouraged the company to

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explore ways to lower the tariff increase as much as possible. Since HEC's tariff had been maintained at the 1998 level and that the debit balance of the Fuel Clause Recovery Account was at a historic high, HEC proposed to make a tariff adjustment in 2002.

11. Mr MAGNUS said that the SCA was specifically designed to balance the interests of consumers and shareholders while ensuring that Hong Kong had an adequate and reliable supply of electricity. Many local and international fund managers had been investing in HEC for its stable earnings, and hence, it was therefore of paramount importance to ensure the integrity and spirit of the SCA. It was also the responsibility of the company's management to plan to achieve the permitted return as far as possible. If HEC failed to achieve the permitted return, the credit rating of the company would be adversely affected, resulting in higher financing costs.

12. Regarding the difference in the unit costs of the CLP and the HEC, SES said that the operating environments of the two power companies were different in terms of investment cycle and economies of scale. Hence, a direct comparison between the two companies was not appropriate. Principal Assistant Secretary for Economic Services (Financial Monitoring Unit) (PAS for ES) added that on the demand side, CLP had the benefits of round-the-clock demand generated by some of its big customers in its supply area.

13. PAS for ES said there was no guarantee that HEC would be able to achieve the permitted return of 13.5%. In the event that the business in a particular year did not meet forecasts and the balance in the Development Fund was insufficient to cover the shortfall, the actual return could be lower. In response to Dr YEUNG Sum's enquiry about the incidents that HEC failed to achieve the permitted return of 13.5%, PAS for ES said that it happened once in 1979.

14. Noting that for the past 23 years, HEC had been able to achieve the permitted return of 13.5%, Mr CHEUNG Man-kwong asked if exceptional consideration could be given to alleviating the burden of the low and middle-income groups in this difficult time by withholding the proposed tariff increase. Echoing members' views, Dr YEUNG Sum commented that users of 1 000 units or above, mainly comprised middle-income families, would have to pay a higher tariff to cross-subsidize other users. Mr LEE Cheuk-yan was also of the view that the company was apathetic to the economic plight of the general public. With a substantial profit of $5.5 billion in 2000, there was significant room for the company to freeze its tariff increase or even propose a tariff cut instead.

15. Mr HUNTER responded that the proposed tariff adjustment was the minimum possible consistent with the SCA. As HEC was operating as a commercial entity, it had to be accountable to its 19 000 shareholders, many of whom were elderly and relied on HEC's dividends as part of their pension planning. Moreover, many

investors with substantial shareholdings had invested in the company placing reliance on provisions in the SCA. Indeed, some investors had expressed concern over HEC's decision to give a special one-off subsidy to the customers for the year 2001.

16. Mr HUNTER noted that the repercussions of not achieving a 13.5% permitted return went far beyond the monetary impacts. The permitted return had enabled HEC to secure loans from banks at relatively lower interest rates. Should HEC fail to achieve the permitted return, its credit rating amongst other things could be affected, resulting in higher financing costs. Such costs would in turn be passed on to consumers. Furthermore, reneging on the SCA would damage Hong Kong's reputation as a leading financial centre.

17. Mr CHAN Kam-lam asked about the estimated profit of HEC if the proposed tariff increase was adopted. In reply, Mr MAGNUS said that this involved sensitive and highly confidential commercial information which the Company could not release to the public.

18. In reply to Mr CHEUNG Man-kwong's question about the shortfall in HEC's profit should there be no tariff increase in year 2002, Mr K S TSO said that it would incur an additional provision of HK$1.2 billion on the Company.

Lamma Power Station and Interconnection

19. Mr LEE Cheuk-yan opined that HEC's tariff increase was attributable to its accelerated construction of the Lamma Power Plant Extension. He called on the Administration to review the extension plan and to increase interconnection between the two power companies.

20. SES replied that the Administration had reviewed the need to construct the proposed Lamma Power Plant Extension. The power companies had hitherto been supplying electricity at 99.99% reliability. As electricity demand continued to grow, it was essential to maintain reliable and adequate supply of electricity and to minimize electricity supply disruptions. Having considered all the relevant factors, the Administration concluded that there was a need for HEC to go ahead with the proposed extension of its Lamma Power Plant.

21. Mr MAGNUS supplemented that tariff charges had been relatively stable since the Company began using Lamma Power Station. For the past 16 years, the tariff increased by only 49% compared to a 182% increase in the Composite Consumer Price Index during the same period. This had been made possible due to various cost control measures to increase operating efficiency.

22. Considering the small area of the territory, Mr LEE Cheuk-yan reiterated that it was not necessary to provide the Lamma Power Plant Extension and asked if there were plans for the Administration to increase interconnection between HEC and CLP

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so as to avoid any further pressure for HEC to increase its tariff in future. Dr YEUNG Sum also urged the Administration to speed up the study on interconnection to provide an alternative for consumers.

23. In reply, SES remarked that following the consultancy study on interconnection and competition in the electricity supply sector, the Administration had commissioned a detailed technical study in February 2001 to examine the impact of increasing interconnection on the transmission network of the two power companies, including transfer capability, system stability, load flow and issues relating to reliability of electricity supply. The Administration had also set up a multi-disciplinary team to examine options for the post-2008 regulatory regime for the electricity supply sector after expiry of the current SCA. The findings of the interconnection study would be available around June 2002 and they would be carefully considered in the context of the electricity market review. She advised members that increasing interconnection involved many issues, including voluntary acceptance by both power companies, technical compatibility with the existing transmission networks as well as justifiable additional investments.

24. Unconvinced with the explanation, Mr LEE Cheuk-yan enquired if the construction of the Lamma Power Plant Extension would be suspended pending the decision on increased interconnection. SES replied that reliability of electricity supply was of paramount importance to Hong Kong. Construction of the Lamma Power Plant Extension was based on actual need.

CLP Power Hong Kong Limited's (CLP) tariff adjustment 2002

25. Mrs Betty YUEN, Acting Managing Director of CLP, gave a presentation on the tariff adjustment of CLP for the year 2002. She said that CLP was conscious of the difficult economic environment currently faced by its customers. It had proposed to Government a tariff package that safeguarded stability and provided immediate benefits to all customers, especially the lower income group. The package, comprising a one-off rebate of $220 and a reduction of fuel clause charges of 0.3 cents per unit, would bring about an average tariff reduction of 2.2 %. The one-off rebate of $220, based on customers' average monthly consumption of 250 units, would be credited to CLP's customers in their first bill in 2002. On top of the rebate and fuel clause reduction, all CLP non-residential customers would get additional benefit from a Business Relief Rebate of 0.2 cents per unit of electricity consumption for a period of 12 months. This Rebate was offered in light of the difficult environment being faced by the commercial and business users as well as the introduction of a Demand Side Management (DSM) charge of 0.2 cents per unit starting January 2002. The DSM program was implemented in 2000 in support of Government's initiative to promote energy conservation. CLP did not make any profit from the DSM charge. The entire rebate and reduction package was expected to amount to $560 million and would be funded mainly by the company's Development Fund and its interest.

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(*Post-meeting note:* The information note provided by CLP was tabled at the meeting and issued to members after the meeting vide LC Paper No. CB(1)677/01-02(02).)

26. Mr Fred LI queried the reasons for proposing a reduction of fuel clause charges of 0.3 cents per unit instead of a downward adjustment of the basic tariff, which would bring more benefits to customers in the long term. In response, Mrs Betty YUEN remarked that CLP's net tariff was made up of four components, basic tariff, rate reduction rebate, DSM charge and fuel clause adjustment. Any adjustments to the fuel clause rebate would only be effected after going through the established procedures and discussions with Government. The surplus or shortfall in tariff revenue would be transferred to or from the Development Fund. However, CLP's total tariff revenue depended on a lot of factors, most of which were uncontrollable and indeed not predictable, e.g. economic situation, structure of the economy, weather conditions, consumption behaviour and fluctuations in market price of imported fuel. Over the years, CLP had focused on efficiency and cost control measures that help relieve pressure on future tariff increase.

27. Mr Fred LI believed that CLP might still achieve the permitted return of 13.5% despite allocating an amount of $560 million from the Development Fund for the one-off rebate and fuel clause reduction package. He asked if there was any further room for tariff cut for CLP. In reply, Mrs Betty YUEN said that CLP had always acted in the best interest of its customers. The success in cost control and Development Fund management helped CLP to stablise tariff and enabled the Company to provide relief under difficult economic environment. CLP's financial position remained sound and healthy, which was due largely to the Company's efforts in cost reduction and a company-wide productivity enhancement programme over the past few years to ensure that its customers could enjoy the full benefits of its increased efficiency. This was the third time the company offered rebates to its customers in three years. The first rebate, amounting to $50 for each customer, was made in 1999. An exceptional rebate of $200 was also announced earlier this year in commemoration of the company's centenary celebrations. The company had also frozen its tariff since 1998.

28. In response to members' queries about the forecast of local sales of electricity for the year 2002, Mrs Betty YUEN replied that according to the five-year Financial Plan submitted to the Government in 1999, a 2% to 3% growth rate was envisaged. So far, CLP’s local electricity sales had been consistent with forecast. The company would review electricity demand taking into account the impact of the September 11 incident and the rising trend for members of the public to spend their holidays in the Mainland.

DSM Agreement

29. The Chairman sought clarification on the DSM Charge and the Business

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Relief Rebate offered by CLP to non-residential customers. The Deputy Chairman asked why a Business Relief Rebate of 0.2 cent per unit was offered to customers for only 12 months while the DSM charge would be chargeable for a period of three years.

30. Mrs Betty YUEN clarified that the DSM program was implemented as a three-year programme in 2000 in support of Government's initiative to promote energy conservation in the commercial and industrial sector. On top of the $220 one-off rebate and 0.3 cent per unit reduction in fuel clause charge offered to all customers, the non-residential customers of CLP would enjoy an additional Business Relief Rebate of 0.2 cents per unit of electricity consumption for a period of 12 months. This Rebate was offered in light of the difficult environment faced by the commercial and business users as well as the introduction of a DSM charge of 0.2 cents per unit starting January 2002. Whether the rebate would be offered on a continual basis would be reviewed in consultation with Economic Services Bureau about the same time next year.

31. Recalling that the proposal on the DSM programme had been put forward to the Panel for discussion in 1999, during which some members had raised objection to the programme. Mr CHAN Kam-lam asked about the details of DSM Agreement signed between the Government and CLP.

32. SES clarified that when the DSM programme was discussed in 1999, members mainly objected to implementing the programme in the residential sector. Hence, the DSM Agreement in question only applied to the non-residential sector. The DSM programme was aimed at promoting energy conservation from the environmental protection perspective. Non-residential customers were eligible to participate in the programme and to apply for DSM rebates for installing or retrofitting energy-saving lighting and air-conditioning appliances. The rebate was offered to attract more customers to participate in the programme and to offset part of the capital costs.

33. At the request of Mr CHAN Kam-lam, SES undertook to provide an information paper on the implementation of the DSM programme.

(*Post meeting note* : An information paper was circulated vide LC Paper No. CB(1)1021/01-02).

34. In conclusion, the Chairman welcomed CLP's move to offer a rebate and tariff reduction to its customers. The Deputy Chairman remarked that the adjustment of tariff by CLP was commendable in promoting its public image. Members thanked the representatives of the power companies for briefing the Panel before the implementing their revised tariff from January 2002.

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II Any other business

35. There being no other business, the meeting ended at 6:15 p.m.

Legislative Council Secretariat
12 March 2002