立法會
Legislative Council

LC Paper No. CB(1)770/02-03
(These minutes have been seen
by the Administration)

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Panel on Economic Services

Minutes of meeting held on
Tuesday, 10 December 2002, 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, GBS, JP Hon CHEUNG Man-kwong Hon HUI Cheung-ching, JP Hon CHAN Kam-lam, JP Hon SIN Chung-kai Dr Hon Philip WONG Yu-hong Hon Jasper TSANG Yok-sing, GBS, JP Hon Howard YOUNG, JP Hon LAU Chin-shek, JP Hon CHOY So-yuk Hon Abraham SHEK Lai-him, JP
Non-Panel Members attending	:	Hon Tommy CHEUNG Yu-yan, JP Hon LAU Ping-cheung
Members absent	:	Dr Hon David LI Kwok-po, GBS, JP Hon Miriam LAU Kin-yee, JP Hon Henry WU King-cheong, BBS, JP Hon LEUNG Fu-wah, MH, JP
Public officers attending	:	**Agenda item III** <u>Economic Development and Labour Bureau</u> Mr Stephen IP Secretary for Economic Development and Labour

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Ms Miranda CHIU
Deputy Secretary for Economic Development and Labour (Economic Development)

Mr James WONG
Principal Assistant Secretary (Economic Development) Financial Monitoring

Agenda item IV

Economic Development and Labour Bureau

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Ms Miranda CHIU
Deputy Secretary for Economic Development and Labour (Economic Development)

Mr James WONG
Principal Assistant Secretary (Economic Development) Financial Monitoring

Mr Ben LI
Electricity Advisor
Economic Development Branch
Economic Development and Labour Bureau

Attendence by Invitation : The Hongkong Electric Co., Ltd.

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

Ms Betty CHAN
General Manager (Public Affairs)

Mr Steve NG
Deputy Chief Accountant

CLP Power

Mrs Betty YUEN
Managing Director

Ms Jane LAU
Public Affairs Director

Mr S H CHAN
Planning Director

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

Staff in attendance : Ms Debbie YAU
Senior Assistant Secretary (1)1

Miss Winnie CHENG
Legislative Assistant 5

Action

I Information paper issued since the meeting held on 25 November 2002

(LC Paper No. CB(1)420/02-03(01) - Tables and graphs showing the import and retail prices of major oil products from November 2000 to October 2002 furnished by the Census and Statistics Department)

Members noted the information paper issued since the meeting held on 25 November 2002.

II Items for discussion at the next meeting scheduled for 27 January 2003

(LC Paper No. CB(1)478/02-03(01) - List of outstanding items for discussion; and
LC Paper No. CB(1)478/02-03(02) - List of follow-up actions)

2. Members agreed to discuss the following two items proposed by the Administration at the next regular meeting scheduled for 27 January 2003:

(a) Marine-related subsidiary legislation; and

(b) Miscellaneous Amendment (Local Vessels) Bill

III Electricity Tariff for 2003

3. The Chairman drew members' attention to a set of presentation materials provided by CLP Power and a submission from Mr Fred LI on 2002 tariff review which were tabled at the meeting and circulated to members after the meeting vide LC Paper Nos. CB(1)515/02-03(01) and (02).

Presentation by The Hongkong Electric Company Limited

4. Mr George C MAGNUS, Chairman of Hongkong Electric Company Limited (HEC) said that HEC would freeze its tariff for 2003. This was the third time that HEC had frozen its tariff since the economic downturn in 1998. HEC was able to provide a tariff freeze for 2003 for the following three main reasons:

(a) Significant savings in operating expenses arising from improved productivity and continuing stringent cost control;

(b) Substantial savings being made in capital expenditure due in part to the deferral of the commissioning of the first 300 MW generating unit of the Lamma extension project from 2004 to 2005, because of lower than expected maximum demand growth in 2002; and

(c) Continued application of the Fuel Clause Account for tariff smoothing.

He said that these actions meant that customers could benefit from a tariff freeze for 2003. At the same time, HEC was in compliance with the Scheme of Control Agreements (SCA) and the management had not deviated from their objective of achieving the return to shareholders that was stipulated in the SCA. He stressed that HEC's development policy had always been prudent. Generation units and transmission and distribution facilities were only added to match actual demand growth. There was no over-capacity and therefore no pressure on tariff due to over expansion of the company's asset base. In addition, HEC had a long standing policy of maintaining a minimal Development Fund which ensured that the tariff was the lowest possible consistent with the SCA. This resulted in minimizing the tariff burden on customers. HEC had always been responsive to the needs of its less well-off customers. For instance, HEC kept its domestic tariff for the first 150 units of electricity consumed each month unchanged for six years. There were now about 90 000 families using less than 150 units of electricity per month and therefore still paying electricity tariff at the 1997 level. In 1994, HEC was the first public utility to introduce a concessionary tariff scheme for the underprivileged, by offering tariff discounts to the elderly on public assistance. The scheme was later extended to the disabled, single parent families and the unemployed. These concessions would continue in 2003.

Presentation by CLP Power Hong Kong Limited

5. Mrs Betty YUEN, Managing Director of CLP Power Hong Kong Limited (CLP) gave a powerpoint presentation on the tariff adjustment of CLP for the year 2003. She said that CLP would continue to freeze its tariff and offer $910 million as a total rebate package to both residential and non-residential customers in 2003. Compared to the rebate package of $560 million offered in 2002, the 2003 offer represented an increase of over 60% and was expected to bring about a reduction of the 2003 average electricity tariff by 3.7%. Effective 1 January 2003, all residential customers would receive either a rebate of $250, or 1.5 cents per unit based on the electricity consumption in the full year of 2002, whichever was higher. Accordingly, around 60% of CLP's residential customers, or one million customers, would enjoy free electricity worth one month or more of their normal consumption. Non-residential customers, largely represented by industrial, commercial, business and government and institutional accounts, would enjoy either a rebate of $700 or a 1.5 cents per unit rebate based on the electricity consumption in the full year of 2002, whichever was higher. This means around 60% of the non-residential customers, totaling 160,000, would receive free electricity worth one month or more of their normal consumption. The rebate range for Bulk Tariff customers and Large Power tariff customers were $5,000 to $450,000 and $200,000 to $4,000,000 respectively. All non-residential customers would also continue to enjoy a Business Relief Rebate of 0.2 cents per unit of electricity consumption. The Business Relief Rebate had been introduced in January 2002 in view of the difficult environment being faced by the business and commercial customers and would be extended to the end of 2003. The 2003 one-off rebate would be credited to customers' accounts in their first bill in 2003 to offset electricity charges until the rebate amount was fully utilized. CLP Power had frozen its tariffs since 1998 and offered rebates of $50, $200 and $220 per customer in 1999, 2001 and 2002 respectively. Including the 2003 rebate package the company had rebated almost $2 billion to its customers over the last few years. CLP Power had been operating its business with strong commitment to the social and economic interests of the community for over 100 years. The package also represented one of the many initiatives that reflected CLP's commitment to its customers.

6. Noting that HEC's sales were only 33% of that of CLP but in terms of value of fixed assets, HEC was 72% of that of CLP, Mr Fred LI was gravely concerned about HEC's control over its operating expenditure and investment in generating units, thereby leading to a higher tariff for customers on Hong Kong Island. As HEC had already increased its tariff in the past two years, he urged HEC to consider offering

rebate to its customers. Further, as the objective of the Fuel Clause Account was to pass through the variation of the fuel costs between standard and actual back to customers, he was worried that the tariff freeze might not be achievable in the end if there was a rise in fuel costs.

7. Mr K S TSO, Group Managing Director of HEC stressed that the company had made stringent efforts to control costs before it was able to offer a tariff freeze in 2003. In fact, HEC had a long standing policy of maintaining a minimal Development Fund, which ensured that the tariff was the lowest possible consistent with the SCA. Given that there had been no excessive built-up of the Development Fund over the past years, the company was unable to offer a rebate out of the Development Fund. Referring to the query that HEC's tariff was 10% higher than that of CLP, he highlighted that 75% of HEC domestic customers would have paid higher tariff in 2002 if they were customers of CLP. On the submission provided by Mr Fred LI, he pointed out that the asset value relating to CLP's generation units in Daya Bay and pumped storage which might account for some 24% of CLP's total generation capacity, might have been excluded from the table. He undertook to discuss with Mr Fred LI further on HEC's information contained therein.

8. Mr Andrew J HUNTER, Group Finance Director of HEC provided the following information on the adjustment of individual tariff components for 2003. These adjustments, however, did not result in any changes in the tariff payable by customers-

Tariff components	2002 (cents)	2003 (cents)
Average basic tariff	108.5	108.5
Fuel clause rebate	-7.1	-6.1
Special rebate	---	-1.0
Rate reduction rebate	-0.1	-0.1
Average net tariff	101.3	101.3

He explained that HEC's average basic tariff and average net tariff for 2003 were the same as for 2002 for all customers. Two minor changes were required for HEC to freeze its tariff. The one cent reduction in the fuel clause rebate was made to allow a gradual recovery of the debit balance of the Fuel Clause Account. This was offset by the provision of a one cent special rebate from the Development Fund. According to the company's projection, the one cent special rebate would effectively exhaust the Development Fund by the end of 2003. He further said that the operation of the Fuel Clause Account was governed by the SCA.

9. While appreciating CLP's 2003 tariff rebate offered to customers, Mr Fred LI pointed out that the surplus in the Development Fund was extracted from customers rather than at the expense of investors or the company itself. He queried why the company did not consider using the Development Fund to reduce the tariff directly.

10. Mrs Betty YUEN replied that under the SCA, the Development Fund was

stipulated to be used to help fund the company's capital expenditure as well as smooth out tariff fluctuations to ensure long-term tariff stability. Indeed, the Development Fund was highly vulnerable to sales fluctuations, which might occur as a result of a variety of external factors such as the general economic environment, weather changes and so on. Accordingly, CLP had exercised prudent management over the past years to ensure that the balance of the Development Fund stood at a consistently stable and healthy level. The results were evidenced by the fact that CLP had frozen the tariff since 1998 and exercised appropriate discretion to use the Development Fund to fund rebates. At present, CLP's annual turnover amounted to some $27 billion and it was reasonable for CLP to maintain a balance of about $3 billion in the Development Fund. She said that the long-term stability over electricity tariffs was highly important to customers and CLP would work to the best interests of the community at large.

11. Mr Abraham SHEK considered that there was a need to uphold the spirit of contract. Modifications to the SCA should be mutually agreed by both parties. Whilst appreciating a tariff freeze by both power companies, he was not convinced that there was a need for CLP to keep its Development Fund at its current high level given its sound foundation and high quality management.

12. In response to the Chairman's query if CLP could still achieve the permitted return of 13.5% despite offering the tariff rebate, Mrs Betty YUEN replied that the Development Fund was for the benefit of customers. If tariff revenue was in excess of costs, the difference would be credited to the Development Fund. If tariff revenue was less than costs, the Development Fund would be drawn down to cover costs. As such, the Development Fund would be able to stabilize tariffs in the long run. This could also balance the interests of customers and shareholders. She confirmed that the projected return in 2003 was broadly in line with the permitted return of 13.5%.

13. Given the substantial profits of both power companies, Mr CHAN Kam-lam considered that there was still room for them to cut their tariff. He remarked that as it was not envisaged that CLP required additional funds to finance their investment in the near future, investors could still obtain a reasonable return based on the present average net fixed assets. He saw no reason why CLP could not further reduce its tariff.

14. Mrs Betty YUEN explained that the electricity industry was capital intensive with long return period. The SCA was to ensure that consumers got a reliable and efficient service at a reasonable price; shareholders of the companies got a reasonable return on their investment, so as to encourage them to continue to make the necessary investment. These objectives were achieved without any direct subsidy from public funds and with a minimum of interference by Government. Mr K S TSO reiterated that the Development Fund of HEC was almost exhausted and hence, HEC could not offer further tariff rebate or reduction in tariff other than the present proposal.

15. Mr LAU Chin-shek noted with regret that the two power companies only agreed to freeze their tariffs rather than offering tariff reductions at a time of deflation when the actual return already amounted to some 20%. Under such circumstances, he sought assurance from the power companies that it would reduce or at least freeze

their tariff at the next couple of years.

16. Mrs Betty YUEN clarified that under SCA, any excess of SCA net revenue over the permitted return was transferred to the Development Fund. The balance might be reduced to meet any shortfall in tariff revenue, thereby maintaining a stability over electricity tariffs. Given that the Development Fund was highly vulnerable to sales fluctuations, there was a need to keep the balance at a consistently stable and healthy level for the best interests of the community at large. Mr K S TSO echoed Mrs YUEN's views that power supply was indeed a capital intensive industry. For every $1 of sales, HEC had to invest $4 in assets. The capital to return ratio was 4:1. HEC would take all factors into account before seeking a tariff increase.

17. Dr LUI Ming-wah queried why investment in generating units did not give rise to a corresponding increase in electricity sales. He queried whether the high tariff was a result of excess generating capacity. He also enquired about the reserve capacity of both power companies.

18. In response, Mr Andrew HUNTER pointed out that the company only made timely and justified investments necessary to ensure demands were met. There was also well-established procedures to guard against over-capacity. He informed members that the total generating capacity of HEC was 3 420 MW and the minimum reserve margin was about 25%.

19. Mrs Betty YUEN advised that the generation capacity of CLP was 8 300 MW. Taking into account the total sales of both Hong Kong and Guangdong markets, the reserve capacity of CLP was about 18% to 19%. In response to members' query on the capacity sold to Guangdong, Mrs Betty YUEN remarked that it ranged between 400/500 MW and 700/800 MW, depending on the weather conditions.

20. Given that part of CLP's generating facilities were for distribution to customers in Guangdong Province, Mr LAU Ping-cheung considered that the fixed assets involved should be excluded from the calculation of the permitted return. In response, Mrs Betty YUEN stressed that investment in the generating facilities was aimed at maintaining a stable supply of electricity in Hong Kong. Electricity sales to Guangdong Province would only be made when there was surplus capacity after satisfying the demand and needs in Hong Kong. 80% of the profit so generated would be transferred to CLP's Development Fund and benefited the local consumers in the end.

Annual Review of electricity tariffs

21. Mr Eric LI commended the Administration's efforts in meeting members' expectations expressed during the motion debate on reducing electricity and gas tariff on 13 November 2002. He appreciated that the Economic Development and Labour Bureau had endeavoured to encourage the power companies to take account of their respective operating conditions and to freeze tariffs or offer rebates to users while safeguarding the rights of investors to operate in compliance with the law. Whilst some people might think that the tariff freeze was the result of external pressure on the

companies, he asked if improvement could be made on the annual review process including the timing of announcement, thereby saving the need for the Council to debate on electricity tariff whilst maintaining investors' confidence in the companies.

22. Mr George MAGNUS said that the decision to freeze HEC's tariff in 2003 was the result of long term planning and continuing efforts of stringent cost control, both of which took a long time to realize. As such, it was not possible to announce the decision on tariff freeze earlier.

23. Mrs Betty YUEN said that as the financial position of the company could only be ascertained after the peak consumption of electricity in every July to September, CLP could only review the electricity tariff for the following year after this period. In addition, it also took time for the Administration to consider the company's proposed tariff for the following year in the context of the company's financial position. She considered the current practice of reviewing electricity tariff effective.

24. The Secretary for Economic Development and Labour (SEDL) thanked Mr Eric LI for his complement. He understood that at times of persistent deflation, members and the public would like to be informed early on the electricity tariffs for the following year. The Bureau would assess the tariff plans proposed by the power companies at the earliest opportunity. The Chairman remarked that the Administration used to brief the Panel on electricity tariffs for the following year in December and it was members' individual decision whether to move a motion on the subject.

Concessionary tariffs to schools

25. Mr CHEUNG Man-kwong urged the power companies to consider offering a 10% discount on electricity tariff to schools. He said that based on the findings of a survey, an annual electricity expenses of $320,000 was too heavy for schools. If concessionary tariffs could be offered to schools, the savings could be used to finance other extra-curricular activities organized by schools which would bring substantial benefits to students.

26. Mr Andrew HUNTER responded that the category of schools was classified as one of the commercial consumers. Like other commercial consumers, schools would enjoy tariff freeze in 2003. HEC was unable to go beyond tariff freeze since its Development Fund was already exhausted. Mrs Betty YUEN said while she was not able to apprehend the cost structure of every industry, the 2003 tariff rebate was a fair scheme as all CLP customers would benefit from the rebate package.

27. Mr CHEUNG Man-kwong pointed out that schools should not be regarded as purely commercial consumer. Given the small number of schools in Hong Kong which was about 1 000, the foregone revenue would be insignificant. However, this would bring substantial benefits to more than a million students. He urged the power companies to reconsider his request.

28. Mrs Betty YUEN reiterated that the proposed tariff rebate scheme was a prudent decision. CLP had operated with strong commitment to the social and economic interests of Hong Kong community for over 100 years. The company had contributed to the well-being of the community through subsidies and donations such as student scholarships offered to schools.

29. Mr K S TSO agreed with Mrs Betty YUEN that instituting the same scheme across the board was the best policy, otherwise, it might amount to cross-subsidy as every sector was facing its own specific difficulties. He said that HEC also provided bursaries to school students.

Way forward

30. SEDL appreciated the efforts made by the two power companies and his colleagues in bringing about a tariff freeze for 2003. He said that as a result of the safeguarding mechanism agreed with the government at the time of approving the Financial Plan 1999-2004, a tariff freeze of HEC was made possible by deferring the first generating unit of the Lamma extension project from 2004 to 2005 having regard to the latest demand forecast. He hoped all parties concerned would continue to have strong commitment to maintaining a stable tariff for the long-term benefit of the community at large whilst upholding the spirit of contract as provided for in the SCA.

IV Other issues relating to electricity supply

(LC Paper No. CB(1)478/02-03(03)	-	Information paper provided by the Administration on interim review of the Scheme of Control Agreements in 2003
LC Paper No. CB(1)478/02-03(04)	-	Information paper provided by the Administration on the review of the electricity market and the technical study on interconnection)

31. SEDL briefed members on the arrangement for the interim review of the SCA by the Government with the two power companies in 2003. He stressed that any arrangement in relation to the interim review of SCA in 2003 must be agreed by both the Government and the power company concerned. Members noted that the interim review would be conducted throughout the year of 2003 and it was not desirable for SEDL to disclose in an open meeting the details of the government's plan for the review at this stage. SEDL however would take into consideration issues raised over time by Members and/or the community at large. He undertook to report to the Panel the outcome of the review in due course.

32. Mr LAU Chin-shek was concerned whether the SCA would continue after its expiry in 2008 and whether the permitted return of 13.5% under SCA would be lowered after the interim review. He urged the Administration to make reference to

the oversea practice. SEDL took note of the member's view. He responded that the Administration appreciated the public view about the pitching of the permitted return at 13.5%, particularly at a time of deflation. The Administration would discuss the matter with the power companies but modifications to the SCA would only be implemented with the mutual agreement by both Government and the power companies.

33. Whilst welcoming the agreement of both power companies to extend the useful life and depreciation periods of certain fixed assets, Mr LAU Ping-cheung cautioned that adequate investment in generating units must be put in place to ensure a stable and reliable supply of electricity in Hong Kong. He also emphasized the need to uphold the spirit of contract and the premise of safeguarding the rights of investors to operate in compliance with the law.

34. SEDL agreed with Mr LAU that an adequate and reliable supply of electricity was of paramount importance to Hong Kong. He assured members that the Administration would exercise due care when considering the extension of the useful life and depreciation periods of certain fixed assets. A proper balance would be maintained to ensuring a reliable supply of electricity with proper investment whilst keeping tariff at a reasonable level. He also said that the Administration was aware of the reported problem arising from the opening up of the electricity market in Canada and the United States.

35. The Chairman considered that with proper maintenance, the useful life and depreciation periods of the fixed assets could be extended. In this connection, the Deputy Secretary for Economic Development and Labour (Economic Development) advised that the SCA provided for an annual Auditing Review under which the Government and the power companies would jointly review, amongst other things, the financial performance of the power companies against the agreed estimates in the Financial Plan as well as the technical performance of the Company. In the process, the performance of existing facilities and requirement for refurbishment / replacement of existing installations or acquisition of new facilities would be reviewed.

36. Mr CHEUNG Man-kwong said that the existing SCA might not be sufficiently flexible to respond to changes in the social and economic environment. As a result, the power companies were making excessive profits at the expense of consumers. He urged the Administration to address this problem in reviewing the SCA.

37. SEDL took note of Mr CHEUNG's view. In drawing up the post 2008 regulatory regime for the electricity supply sector, the Administration would undertake a comprehensive electricity market review having the following primary objectives:

(a) to ensure a continued reliable and safe energy supply at reasonable prices to support Hong Kong’s economic development; and

(b) to address major criticisms and perceived shortcomings of the existing SCAs.

He said that the electricity market review would encompass a wide scope of issues which would be technical, business, legal and liability related. It would also cover issues such as the reliable supply of electricity, interconnection, possible market structure and the cost-benefit, the possible regulatory regime and the role of the regulator and maintenance of investor confidence, etc. All of these issues would have significant implications on existing market participants and the public.

38. Mr Fred LI expressed his support for considering the factor of deflation during the interim review of the SCA in 2003. In addition, initiatives to better protect our environment and other cost-effective measures to cut costs should be addressed. To increase the bargaining power of the Administration, he further proposed that the Administration could consider reviewing the post 2008 electricity market at the same time when the interim review of SCAs was conducted. He sought information on the implementation timetable of the post 2008 electricity market review.

39. SEDL replied that the Administration would make every effort to strive for the best interest of Hong Kong during the interim review of SCA. Given the issue of post 2008 regulatory regime for the electricity supply sector was of paramount importance to Hong Kong involving complex issues, it was difficult, if not impossible, to draw up a detailed implementation timetable at this stage. He undertook to consult the stakeholders, market participants and Members and revert to the Panel as appropriate. In fact, the technical study on increasing interconnection between the two power companies would be taken into account in the said review and to-date, the Consultants had prepared a final draft report. The Panel would be briefed on the result of the findings when the technical study was finalized around mid 2003.

40. Mr Eric LI considered it necessary to set up a tariff determination mechanism so as to facilitate the monitoring of the frequency and level of tariff adjustments. There was also a need to review how the Development Fund would be disposed of after the expiry of the existing SCAs and whether it was necessary to keep the Development Fund at the current high level. On the issue of interconnection, Mr Eric LI remarked that in view of the increasing integration with the Pearl River Delta region, consideration should be given to extending the existing electricity network across the border to form a wider network so as to enjoy the economy of scale.

41. SEDL replied that the Administration would ensure that the Development Fund would be properly disposed of having regard to the interest of consumers. As regards interconnection with the Mainland, the Administration would examine further the related issues in the context of the technical study on increasing interconnection between the two power companies.

42. Miss CHOY So-yuk was disappointed to note that issues concerning environmental protection such as disposal standards and environmental responsibilities, use of renewal energy etc, was not covered in the Administration's paper. She urged the Administration to include these issues in the interim review of the SCA. The related requirements and penalties involved should be clearly spelt out in the SCA.

43. Referring to paragraph 10 of the paper on 2003 Interim Review, SEDL pointed out that matters relating to environmental aspects such as renewable energy would also be taken into consideration in the interim review of the SCA. He assured Miss CHOY that the Secretary for Environment, Transport and Works had a series of plans to promote environmental protection.

V Any other business

44. There being no other business, the meeting ended at 6:00 pm.

Council Business Division 1
Legislative Council Secretariat
21 January 2003