

立法會
Legislative Council

LC Paper No. CB(1)2438/02-03
(These minutes have been seen
by the Administration and
cleared with the Chairman)

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Panel on Economic Services

**Minutes of meeting held on
Monday, 28 July 2003, at 10:45 am
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
Dr Hon Eric LI Ka-cheung, GBS, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon Fred LI Wah-ming, JP
Hon HUI Cheung-ching, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Hon Jasper TSANG Yok-sing, GBS, JP
Hon CHOY So-yuk
Hon LEUNG Fu-wah, MH, JP
- Members absent** : Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHEUNG Man-kwong
Dr Hon Philip WONG Yu-hong, GBS
Hon Howard YOUNG, SBS, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-ye, JP
Hon Abraham SHEK Lai-him, JP
Hon Henry WU King-cheong, BBS, JP
- Public officers attending** : **Agenda item III**
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)1

Electrical and Mechanical Services Department

Mr K W HO
Deputy Director of Electrical and Mechanical
Services

Mr William CHENG
Acting Senior Electrical & Mechanical Engineer/
Utility Monitoring A

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)

Mr Raymond FAN
Deputy Secretary for Economic Development and
Labour (Economic Development)3

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

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I Confirmation of minutes and matters arising
(LC Paper No. CB(1)2252/02-03 - Minutes of meeting held on 23.6.2003)

The minutes of the meeting held on 23 June 2003 were confirmed.

II Information paper issued since last meeting
(LC Paper No. CB(1)2149/02-03(01) - Tables and graphs showing the import and retail prices of major oil products from June 2001 to May 2003 furnished by the Census and Statistics Department)

2. Members noted the information paper issued since last meeting.

III Technical Study on Increasing Power Interconnection in Hong Kong : Consultancy Findings

(LC Paper No. CB(1)2253/02-03(01) - Information paper provided by the Administration

LC Paper No. CB(1)2293/02-03(01) - A letter from Hon Fred LI Wah-ming on "Technical Study on Increasing Power Interconnection in Hong Kong : Consultancy Findings"

LC Paper No. CB(1)2293/02-03(02) - The Administration's reply to the letter of Hon Fred LI Wah-ming

LC Paper No. CB(1)2302/02-03(01) - Presentation materials prepared by Electrical and Mechanical Services Department
(*tabled at the meeting and subsequently issued to members on 29 July 2003*)

3. With the aid of PowerPoint, the Deputy Director of Electrical and Mechanical Services (DD/EMS) outlined the main findings of the technical feasibility study on increasing interconnection between the two power companies commissioned by the Electrical and Mechanical Services Department (EMSD).

4. The Secretary for Economic Development and Labour (SEDL) added that there was an existing interconnector with limited capacity between the two power companies for emergency purpose. There was also interconnection between the CLP Power Hong Kong Ltd (CLP) and the electricity network in Southern China for transmission of electricity generated from Daya Bay to Hong Kong or from CLP to Guangdong province when necessary. He said that the Government would consider the findings of the Technical Study together with

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other related issues in the post-2008 electricity market review and consult relevant stakeholders on the way forward before a decision was made.

5. In view of the recent High Court ruling against the Wan Chai Reclamation project, the Chairman was concerned whether the proposed route for the new interconnection would be affected, causing further delay to the completion of the new interconnector at the new Wan Chai Substation in the Hong Kong Electric Company Limited (HEC) network. The Deputy Secretary for Economic Development and Labour (Economic Development)1 (DS/EDL(ED)1) advised that the proposed landing point on Hong Kong side for the new interconnector was not covered by the draft Outline Zoning Plan in question.

6. Members were generally concerned about the long lead time in taking forward the initiative to increase interconnection between the two power companies. Given that it took about five years to plan and build an interconnector, members emphasized the need to map out the post-2008 arrangements early. This, in turn, would enable the timely connection of the transmission grids of the two power companies to bring about tariff reductions and long-term benefits to consumers. To this end, members urged the Administration to initiate discussion with the two power companies as soon as possible. It would also be necessary to address the transitional arrangements between the present and the future market structure, to make early preparation for future third party access to the transmission network and to discuss with the Mainland authorities the supply of electricity.

7. Mr Fred LI was gravely dissatisfied that the Administration had taken five to six years to complete a technical feasibility study on increasing interconnection between the two power companies. Given the slow progress, completion of the new interconnector before 2008 was precluded. The slippage in the completion of new interconnector might necessitate further capital investment on generating plants by the two power companies, and hence, the subsequent tariff revisions. The economic benefits of increasing interconnection would also be diminished if the transmission grids of the two power companies could not be fully connected by 2008, bearing in mind the recommendation of the Consultant that if the two systems continued to plan and operate separately, additional capacity would be needed from year 2011.

8. Recognizing the benefits associated with increasing interconnection between the two power companies and in light of the fact that the Schemes of Control Agreements (SCAs) would expire in 2008, Mr SIN Chung-kai opined that the Administration should direct the power companies to make early preparation for future third party access to the transmission network. The policy decision of increasing power interconnection in Hong Kong and the target implementation date of 2008 should be made known to the two power companies when discussing with them over the future direction of the electricity supply market and the resulting regulatory framework.

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9. Mr Kenneth TING also considered that the matter of increasing interconnection had been dragged on for a long time. He called on the Administration to discuss with the two power companies in the context of the 2003 interim review of SCAs with a view to ensuring the completion of a new interconnector by 2008.

10. Mr HUI Cheung-ching remarked that increasing interconnection had been high on the agenda of the Panel. Various options had been put forward for the Administration's consideration, including increasing interconnection between the two power companies in Hong Kong, and increasing power interconnection between Hong Kong and the Mainland, including the transmission of electricity and gas from west to east, and transmission of hydro-electric power to Hong Kong. Regarding the overall cost of the interconnection of \$2.1 billion, he cautioned that investment of this kind would form part of the companies' fixed assets, and, in turn, might lead to an increase in electricity tariffs.

11. Dr LUI Ming-wah said that in order to revive the economy, there was a need to lower the electricity tariffs. To this end, he urged the Administration to make reference to overseas experience with a view to mapping out the future direction of the electricity supply market in Hong Kong. Interconnection alone was not enough, it must bring about a reduction in electricity tariffs so that consumers could obtain the ultimate benefits. He saw increasing interconnection, not just between the two power companies but also with the Mainland, as the logical way forward for the longer term. Despite the call for tariff reductions, he also asked the Administration to maintain a balance to safeguard the interest of investors as well.

12. Mr CHAN Kam-lam also called on the Administration to initiate discussion with the two power companies with a view to achieving a full interconnection between the two power companies at the earliest opportunity. Whilst it was important to ensure that consumers could enjoy a reliable and efficient supply of electricity at a reduced price, he also saw the need for the Administration to ensure that the companies received a reasonable return on their investment to encourage continued investment. He hoped the Administration could urge the companies to reduce their tariffs in the context of the 2003 interim review of SCAs.

13. SEDL disagreed that the Administration had been slow in taking forward the initiative to increase power interconnection in Hong Kong. He explained that an earlier consultancy study completed in 1999 concluded that, prima facie, there could be overall economic benefits if additional interconnection was installed between the two power companies. Subsequently, EMSD commissioned a Consultant to undertake the present technical feasibility study to identify technical issues involved in increasing interconnection between the two power companies.

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14. SEDL further said that the existing SCAs between the Government and the two power companies would expire in 2008. The Government would conduct a review of the electricity market with a view to drawing up a broad framework for the development of our electricity supply sector to succeed the current SCAs. The electricity market review would encompass a wide scope of issues involving technical, business, legal and liability related matters. All of these issues would have significant implications for existing market participants and the public. There was also a need to monitor closely the rapidly changing situation in the Mainland power sector and to update the findings of the Technical Study as they related to the Guangdong electricity market in the light of more recent developments. The Government would also take cognizance of the relevant experiences gained in other countries. A series of detailed studies in key areas would be undertaken during the review in order to identify possible options for the post-2008 regulatory regime in Hong Kong's electricity supply sector. The Government would consult the Panel, stakeholders, market participants and interested parties on possible options identified in the review. He also clarified that increasing interconnection would not replace the need for additional generation facilities required to meet the growth in electricity demand in the long term.

15. Noting members' call on the Administration to speed up the related work, SEDL said that to pave way for increasing interconnection between the two power companies, a lot of preparatory work had to be done. Given the complexity and the range of issues involved, the Government had to consider the findings of the Technical Study together with other related issues including legal, business, investment, financial, liability and regulatory issues in the post-2008 electricity market review. The Government would also consider possible interconnection between the power systems in Hong Kong and the Mainland while ensuring continued reliable and safe energy supply at reasonable prices to support Hong Kong's economic development. The Government would initiate discussion with the two power companies and consider possible options in the electricity market review next year.

16. Mr Fred LI asked the Administration to quantify the economic benefits of increasing interconnection vis-à-vis the overall estimated cost of \$2.1 billion. In his view, the interconnection cost was not significant when compared with the investments of the two power companies over other assets. He also enquired whether consumers would be allowed to directly choose their power producers, and whether the cost of interconnection could be absorbed by new investors.

17. The Permanent Secretary for Economic Development and Labour (Economic Development) (PS/EDL(ED)) said that the power systems were the private property of the two power companies. Under the existing SCA increasing interconnection could only be introduced with the agreement of the companies, and the interconnection cost might also have implications on electricity tariffs. Before the issue of consumers' choice resulting from

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increasing interconnection could be addressed, there was a need to examine, in greater detail issues like legal arrangements for funding interconnection, including the subsequent recurrent costs, and possible tariff implications. Similarly the question of liability, in the event of interruption to interconnected supplies in future, would also need to be addressed. The question of interconnection should therefore be examined in the post-2008 electricity market review as mentioned earlier.

18. Following the signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), Mr HUI Cheung-ching envisaged that some of the local manufacturers might relocate their factories back to Hong Kong, thereby leading to an upsurge in electricity demand. He enquired whether the Administration had taken this factor into consideration when drawing up the interconnection plan. DS/EDL(ED)1 replied that at the time the Technical Study was conducted, CEPA was not on the agenda. Based on the original forecasts, if CLP and HEC systems were fully interconnected, further investment in generation facilities might be deferred by a year or two.

19. The Chairman asked the Administration to take note of members' view and come up with concrete proposals for further consultation with the Panel.

IV Progress in the development of a Digital Trade and Transportation Network System

(LC Paper No. CB(1)2253/02-03(02) - Information paper provided by the Administration)

20. At the invitation of the Chairman, the Deputy Secretary for Economic Development and Labour (Economic Development) 3 (DS/EDL(ED)3) briefed members on the progress in the development of the Digital Trade and Transportation Network (DTTN) system. He outlined the background and the DTTN report findings which confirmed the strategic importance of establishing the DTTN system so as to enhance the overall competitiveness of the local logistics industry. The DTTN report findings had suggested the roles to be played and the guiding principles to be followed by the DTTN system. The report estimated that it would take about three years to develop the DTTN system from scratch and the total direct investment in the development and operation of the DTTN system over a 17-year period was approximately HK\$3 billion, with an estimated tangible benefit to the industry over the same period of approximately HK\$11.8 billion. While noting the estimated benefits of the DTTN system and its strategic importance in enhancing the competitiveness of the logistics industry, members of the Hong Kong Logistics Development Council (LOGSCOUNCIL) considered that the estimated cost was very high and the time required for implementing the system was prohibitively long. Since time would be of essence in taking forward the DTTN initiative, LOGSCOUNCIL recommended inviting a service provider to jump start the system. To facilitate early implementation of the DTTN system, proposals were

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invited through an open invitation, which was not a tender exercise. He pointed out that in line with the principle of non-exclusivity, no exclusive right or franchise would be granted for developing and operating a DTTN system. After careful and thorough consideration, the Assessment Panel set up by the E-logistics Project Group of the LOGSCOUNCIL considered that of the three proposals received, the one from Tradelink Electronic Commerce Ltd (Tradelink) was closest to the blueprint envisaged in the DTTN report. On the recommendation of LOGSCOUNCIL, the Administration would soon enter into discussion with Tradelink.

21. PS/EDL(ED) further advised that the Administration was mindful of the need to solicit the support and participation of the industry players in order to ensure the success of the DTTN system. The Administration had therefore accepted the recommendations of LOGSCOUNCIL, as an industry-specific advisory body made up of 34 non-official members, on how to take forward the DTTN initiative. To ensure industry acceptance of the DTTN system, the Assessment Panel had evaluated each proposal in the light of the guiding principles, technical standards, service coverage and requirements enshrined in the DTTN report. She remarked that adherence to the guiding principles including neutrality, non-exclusivity and transparency would be essential in securing support and acceptance by the industry.

22. Dr LUI Ming-wah was concerned about the financing of the project and the ultimate fees for using the service. PS/EDL(ED) advised that according to Tradelink's proposal, it would take about two years to develop and launch the DTTN system in two phases. The initial capital investment would be about HK\$156 million. She confirmed that the project would be partially funded by the project proponent. The Administration would enter into discussion with Tradelink soon with a view to concluding an operating agreement to cover a wide range of issues essential in ensuring acceptance and support of the industry, including the fee charging policy for the DTTN system.

23. As logistics was a new and fast-growing industry, the Chairman remarked that other countries might also be developing DTTN systems on their own. He enquired about the issue of compatibility and whether we could make use of the systems developed by others.

24. On the issue of compatibility, SEDL confirmed that the DTTN system would serve as a common information infrastructure in Hong Kong. PS/EDL(ED) added that the DTTN system would be designed in such a way so as to ensure integration with other existing systems in use.

25. In the absence of an open tendering exercise for selection, the Chairman enquired whether the whole process would be subject to challenge at a later stage. SEDL clarified that the present exercise did not involve any granting of exclusive right or franchise to Tradelink for developing and operating a DTTN system. Indeed, any company would be at liberty to present proposals to

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LOGSCOUNCIL for further consideration. The issue at stake was whether the DTTN system would be supported by the industry.

26. In reply to Mr Kenneth TING, PS/EDL(ED) said that the target users of the DTTN system were those in the supply chain, including buyers/importers, sellers/exporters, shippers, freight forwarders, carriers, terminals, government and its agencies and at a later stage, financial institutions, insurance companies and inspection agencies.

27. Noting that active involvement and participation of small and medium sized enterprises (SMEs) in the DTTN system was conducive to its success, Mr HUI Cheung-ching was concerned whether any attractive terms would be offered to SMEs in using the system, just like the irresistible price of HK\$888 for the system components offered by the Commerce, Industry and Technology Bureau when it encouraged SMEs to adopt the use of information technology in business operation.

28. SEDL highlighted that the DTTN system would improve the overall effectiveness and efficiency of SMEs. Significant savings in terms of the reduction of paperwork, process time, and time spent in data re-keying would be realized. These benefits would persuade SMEs to abandon the traditional paper-centric processes and adopt new and more efficient business practices enabled by the DTTN system. Indeed, the full realization of the DTTN value propositions was based on gaining SME involvement and active participation. PS/EDL(ED) added that any operator of the DTTN system would require broad support from the logistics community as a whole to maximize the number of participants over time. They would need to demonstrate neutrality, integrity, security of data, financial standing and a commitment to comply with the guiding principles.

29. Summing up, the Chairman expressed the Panel's support for the development of the DTTN system.

V Any other business

30. There being no other business, the meeting ended at 12:20 pm.