

立法會
Legislative Council

LC Paper No. CB(1)713/05-06

(These minutes have been
seen by the Administration)

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Panel on Transport

**Minutes of meeting held on
Friday, 16 December 2005, at 10:00 am
in Conference Room A of the Legislative Council Building**

Members present : Hon LAU Kong-wah, JP (Chairman)
Hon Andrew CHENG Kar-foo (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Albert CHAN Wai-yip
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Albert Jinghan CHENG

Member attending : Hon CHAN Kam-lam, SBS, JP

Members absent : Hon TAM Yiu-chung, GBS, JP
Hon LEUNG Kwok-hung
Hon CHEUNG Hok-ming, SBS, JP

**Public Officers
attending** : **Agenda item IV**

Mr Roger LAI
Director of Electrical and Mechanical Services

Mr Frank CHAN
Assistant Director of Electrical and Mechanical Services

Mr WONG Sek-cheung
Acting Chief Engineer
Electrical and Mechanical Services Department

Mr Roy TANG
Deputy Director of Environmental Protection

Mr MOK Wai-chuen
Principal Environmental Protection Officer
Environmental Protection Department

Mr Ken HUI
Chief Transport Officer
Transport Department

Agenda item V

Dr Sarah LIAO
Secretary for the Environment, Transport and Works

Mr Joshua LAW
Permanent Secretary for the Environment, Transport and
Works

Miss Cathy CHU
Deputy Secretary for the Environment, Transport and Works

Miss Angela LEE
Principal Assistant Secretary for the Environment, Transport
and Works

Mr LEE Kwong-ming
Chief Treasury Accountant (Transport)
Environment, Transport and Works Bureau

Mr Alan WONG
Commissioner for Transport

Mr Albert YUEN
Assistant Commissioner for Transport/Bus and Railway

Mr W M WONG
Principal Transport Officer/Bus and Railway
Transport Department

Attendance by invitation : **Agenda item V**

The Kowloon Motor Bus Company (1933) Limited/
Long Win Bus Company Limited

Mr John C C CHAN
Managing Director

Mr LUI Po-chiu
Operations Director

Citybus Limited/
New World First Bus Services Limited

Mr Lyndon REES
Managing Director

Mr Samuel CHENG
Deputy Managing Director

Mr Mark SAVELLI
Deputy Managing Director

New Lantao Bus Company (1973) Limited

Mr Peter MOK
Executive Director

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

Staff in attendance : Ms Anita SIT
Senior Council Secretary (1)9

Miss Winnie CHENG
Legislative Assistant (1)5

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IV Liquefied petroleum gas filling stations

- (LC Paper No. CB(1)503/05-06(03) - Information paper provided by the Administration
- LC Paper No. CB(1)529/05-06(01) - A Joint submission from 司機權益關注組／的士司機權益協會籌委會
- LC Paper No. CB(1)543/05-06(01) - Gist of discussion between Duty Roster Members and 司機權益關注組／的士司機權益協會籌委會)

6. The Director of Electrical and Mechanical Services (DEMS) explained the operation of dedicated liquefied petroleum gas (LPG) filling stations (“dedicated stations”) under the Design, Build and Operate (DBO) contracts and the recent problems encountered and actions being taken to tackle the problem. He made the following points –

- (a) The LPG pump price at each dedicated station comprised two elements, namely the LPG international price and the maximum operating price to which the operators concerned had committed. The DBO contracts for dedicated LPG filling stations were awarded through open tender. The bidder offering the lowest operating price was offered the DBO contract at each tendering exercise. The pricing mechanism for dedicated stations had been clearly stated in the relevant tender documents to all bidders and DBO contract documents with the operators.
- (b) At the time of designing the Pricing Formula in 1999, LPG international prices had been quite stable. To avoid frequent adjustments to the LPG pump prices, the frequency of the LPG ceiling price adjustment was then set at half-yearly intervals. On the other hand, with a view to ensuring the long-term sustainability of the 21-year DBO contract, the DBO contract documents had incorporated a provision that a review of the pricing mechanism should be conducted at five-yearly intervals. Again the review of the pricing mechanism had been clearly stated in the tender documents to all bidders and DBO contract documents with the operators.
- (c) The price differential of LPG between dedicated and non-dedicated LPG filling stations (“non-dedicated station”) had all along been insignificant, ranging between \$0.1 and \$0.2 per litre. However, due to the recent surge of LPG international prices, non-dedicated station operators had already adjusted the retail price of LPG upward. On the other hand, dedicated station operators could not adjust the retail prices of LPG freely. As a result of the widened price differential between the two types of refilling stations,

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there had been an increase in demand at dedicated filling stations and a decrease in demand at non-dedicated stations.

- (d) Up to the first half of 2005, the operation of dedicated stations had been smooth. On average, the daily consumption at the dedicated stations operated by the China Resources Petrochems (Group) Co. Ltd. (CRC) had been about 400 000 litres in total. This had increased to some 550 000 litres in recent months. The present situation was that the LPG road tanker fleet, oil terminal at Tsing Yi and even the LPG supply chain of the dedicated station operators were stretched to their capacity limit. So the crux of the problem was that the pump prices at dedicated stations were lagging behind the movement of LPG international prices.

7. Mr WONG Kwok-hing said that a number of taxi and public light bus operators involving some 20 000 vehicles had switched to use LPG vehicles in support of Government's policy to improve air quality in Hong Kong. Now they had to queue up at dedicated stations for at least 30 minutes and sometimes more than one hour to get refilled. Very often, less than half of the LPG nozzles were operated at the stations. The situation was deteriorating. The drivers of LPG vehicles found it difficult to endure the situation any more. Their complaints to the Electrical and Mechanical Services Department (EMSD) had been in vain. On 12 December 2005, he had visited four dedicated LPG filling stations together with the LPG vehicle trades and thereafter had made a complaint to EMSD. Disappointingly, no oral or written response to his complaint had been received yet. He considered that the Administration had failed to monitor the operation of the dedicated stations and the situation had now reached a critical point. The Administration had informed him that CRC would deploy a new LPG road tanker in February 2006. However, it would be too late if any relief to the queuing problem would only be available by then. He suggested that during this transitional period, the Administration should urge CRC and ECO Energy Co. Ltd. (ECO) to adjust the LPG pump prices at non-dedicated stations to the same level as dedicated stations to relieve the queuing problem.

8. The Assistant Director of Electrical and Mechanical Services (AD/EMS) responded that since late November 2005, EMSD had received a total of 290 complaints against some dedicated stations. EMSD had already strengthened its inspection work at dedicated stations and a total of 580 surprise inspections had been carried out since late November 2005. Upon receipt of any complaint, EMSD would immediately contact the relevant filling station. Since the establishment of the complaint hotline on 29 November 2005, the queuing situation at dedicated stations had improved. According to the findings of recent inspections, the queuing time at most dedicated stations was less than 30 minutes. During the Sixth Ministerial Conference, as the dedicated station in Wan Chai was affected, the queuing time at the dedicated station in Sheung Wan was slightly longer than 30 minutes. Other dedicated stations at which the queuing time was 30 minutes or slightly longer included those located in Kwun Tong, Kwai Chung and Tuen Mun. AD/EMS also made the following points –

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- (a) The dedicated stations operated by CRC were designed to support a daily consumption of 400 000 litres in total. The present daily consumption was some 550 000 litres. Under the oversight of EMSD, CRC had made special arrangements to deploy its LPG supply to dedicated stations as far as possible. EMSD's figures showed that the daily consumption at the non-dedicated stations operated by CRC was 40 000 litres only, which was less than 10% of the 550 000 litres consumed at CRC's dedicated stations, indicating that CRC had in fact mobilized their resources to meet the substantial surge on demand at dedicated stations.
- (b) The Administration had discussed the matter with Mr WONG Kwok-hing and the LPG taxi trades on 15 December 2005, and thereafter had had follow-up discussions with the Transport Department and the Environmental Protection Department. The Administration would follow up Mr WONG's suggestion of urging CRC's non-dedicated stations to adjust LPG prices to the same level as dedicated stations, but had to point out that as the LPG prices at non-dedicated stations were not subject to the Government's regulation, there was no guarantee that CRC would heed the suggestion.
- (c) There were a total of 190 LPG nozzles at dedicated stations (108 nozzles at CRC's stations and 82 nozzles at ECO's stations) and a total of 202 LPG nozzles at non-dedicated stations. So, the two types of LPG filling stations had been expected to share about equally the daily LPG consumption. But the situation at present was that about 75% of LPG vehicles chose to get refilled at dedicated stations. In the case of CRC, the dedicated stations were designed to support about 10 000 LPG vehicle fillings per day and now they were supplying up to 15 000 fillings a day. In fact, during the past months of rising LPG international prices, CRC and ECO had increased their supply at dedicated stations.
- (d) Each LPG filling station had limited LPG inventory, which was about 40 000 litres. If all the 24 LPG nozzles at a station were put into operation, 25% of the inventory would be depleted in an hour. This explained why notwithstanding the heavy demand at dedicated stations, the operators had to close some LPG nozzles in order to maintain the operation of the stations until the next refilling of their LPG storage tanks. There was also a safety requirement that when the LPG inventory level of a station was depleted to about 10%, the whole station must stop operation, in which case, the effect on the transport trade could be significant.
- (e) There was a suggestion that dedicated stations should, as far as possible, operate all LPG nozzles in response to demand and when the LPG inventory of any station was used up, the operator concerned might then close the station with a notice posted outside the station. The LPG vehicle trades had very divergent views to this suggestion. EMSD would continue to discuss

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with the LPG vehicle trades and the operators of dedicated stations with a view to working out an arrangement acceptable to all parties concerned. In the meantime, EMSD would direct the operators to strengthen their facilities and supply chain so as to minimize the inconvenience to the LPG vehicle trades.

(Post-meeting note: The Administration subsequently advised that EMSD had followed up with CRC with regard to Mr. Wong's suggestion on LPG price reduction at CRC's non-dedicated stations. CRC advised that they were unable to do so. However, the LPG pump price at CRC's non-dedicated station at Fanling was lowered by twenty cents on 5 January 2006.)

9. In reply to Mr Albert CHENG's enquiry, AD/EMS confirmed that EMSD had conducted surprise inspections at dedicated stations during midnight hours and the queuing time cited above covered the situation during midnight hours.

10. Mr CHAN Kam-lam pointed out that the crux of the problem was the significant price differential (about \$1.0 per litre at present) between dedicated and non-dedicated stations, resulting in a huge increase in demand at dedicated stations and thus the queuing of LPG vehicles. There was an urgent need to review the pricing mechanism for dedicated stations, and in fact the two companies concerned had raised the issue in 2004. He asked whether and when the frequency of LPG ceiling price adjustment for dedicated stations would be revised from half-yearly to monthly, so that the pump prices would reflect the movement of LPG international prices timely.

11. AD/EMS concurred with Mr CHAN that the skewed balance between supply and demand at dedicated stations was attributed to the significant price differential between dedicated and non-dedicated stations. He advised that since May 2005, a joint departmental working group had started the five-year Pricing Review as prescribed in the DBO contracts. The working group had reached the view that more frequent ceiling price adjustments would reduce the time-lagging effect and hence narrow the price-gap between dedicated and non-dedicated stations. He stressed that the introduction of a more frequent ceiling price adjustment mechanism did not in itself increase the operating cost for the transport trade, but would allow more timely ceiling price adjustment according to LPG international prices. The Administration planned to implement the modified mechanism as soon as a general consensus among concerned parties had been reached.

12. Mr CHAN Kam-lam said that the operators of dedicated stations at present had to lose about \$0.4 to \$0.5 for each litre sold at the stations. In fact, over the past months, they had not reduced the supply but had supplied more LPG than the design capacity of the stations. CRC was operating the dedicated stations at a loss of \$9 million in September 2005, \$12 million in October 2005 and \$10 million in November 2005. He pointed out that the problem could not be solved unless the LPG ceiling price adjustment was adjusted more frequently. He asked if the more frequent ceiling pricing adjustment arrangement could be implemented earlier than February 2006. AD/EMS

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said that the Administration would see if the arrangement could be implemented at an earlier timing.

13. Ms LI Fung-ying said that the LPG vehicle trades had lodged a complaint to Complaints Division of the Legislative Council on 13 December 2005. They had expressed strong dissatisfaction and indicated that they could not endure the queuing problem any more. They had pointed out that the problem had occurred not recently but as early as 2004, but the Administration had not taken prompt action to address the problem. She questioned why the Administration had not co-opted any representative from the LPG vehicle trades into the working group to conduct the five-year Pricing Review. She considered that revising the LPG ceiling price adjustment frequency from half-yearly to monthly was a significant change, and was concerned that the scenario of “quick increase and slow reduction in LPG pump prices” at dedicated stations would occur, thus adding to the financial burden of the LPG vehicle trades and in turn the burden of transportation expenses on the public. She emphasized that the sites for the dedicated stations were provided at nil land premium to the operators. Although they had incurred losses in recent months, the operators might have attained substantial profits in the past. The arrangement of making LPG ceiling price adjustment half-yearly should not be changed simply because at this point in time, the arrangement prevented the operators from making profits. She asked whether the Administration would discuss the matter with the LPG vehicle trades.

14. DEMS stressed that with the frequency of LPG ceiling price adjustment changed to monthly, the adjustment would still be based on the same factors and thus the process of price adjustment would continue to be highly transparent. The Administration had explained the pricing mechanism to the LPG vehicle trades when the LPG Taxi Scheme was launched in 1999. The suggestion of revising the ceiling price adjustment frequency from half-yearly to monthly was to minimize the time-lagging effect, thereby narrowing the price gap between dedicated and non-dedicated LPG filling stations. It was necessary for the Administration to arrive at a view under the five-year Pricing Review and thus a joint departmental working group comprising representatives from relevant government departments had been set up for the purpose. Actually, the Administration had maintained a dialogue with the LPG vehicle trades through formal and informal channels. The latest discussion with the trades was held on 9 December 2005.

15. As regards the fact that the dedicated stations were offered at nil land premium, DEMS pointed out that the DBO contracts were awarded to bidders offering the lowest operating prices. Hence, the benefit of “nil land premium” had already been factored into the committed operating prices of the operators.

16. On the concern about the occurrence of the scenario of “quick increase and slow reduction in LPG pump prices”, the Deputy Director of Environmental Protection said that each DBO contract was awarded to the bidder offering the lowest pump price and hence willing to accept the lowest profit margin. In 2000, the LPG international price was about \$1.5 per litre, and the pump price at non-dedicated stations was about \$3.4.

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The current LPG international price had increased to \$2.3 per litre, a 50% increase, but the pump price at non-dedicated stations had dropped to \$3.27. This phenomenon was attributed to the price suppression effect brought about by dedicated stations. The effect was particularly evident in the first year after the launch of the dedicated LPG filling stations when the pump price at non-dedicated stations had dropped by \$1 in the year. If the LPG ceiling price was adjusted more frequently, when the LPG international price dropped, dedicated stations would adjust their pump prices downwards in a more timely manner and this in turn would exert similar pressure for downward adjustment on the pump prices of non-dedicated stations. Therefore, the scenario of “quick increase and slow reduction in LPG pump prices” could not happen.

17. Mr Albert CHENG said that he had raised a relevant oral question at the Council meeting on 2 March 2005. The queuing problem at dedicated stations however had not been improved since then. Being one of the Duty Roster Members receiving the LPG vehicle trades on 13 December 2005, he was certain that the LPG vehicle trades were not asking for raising the LPG pump prices at dedicated stations. Given the price differential between dedicated and non-dedicated stations, it was understandable that LPG vehicles, which were either taxis or public light buses, would most probably choose to get refilled at dedicated stations despite the queuing time involved, since they would not be able to earn the price differential otherwise. He could not accept the explanation that because of the limited LPG inventory of dedicated stations, some of the LPG nozzles had to be closed to delay the depletion of the inventory. Instead, the LPG inventory of dedicated stations should have been designed to support full operation of all LPG nozzles. He also considered that there existed a serious loophole in that the same oil company was allowed to operate both dedicated and non-dedicated stations. Since the profit margin of dedicated stations was lower than that of non-dedicated stations, the company naturally had the incentives to keep the operation of dedicated stations at a low level so as to force some LPG vehicles to get refilled at non-dedicated stations.

18. Ms Miriam LAU concurred with other members that the problem with the operation of dedicated stations had existed for some time and according to the complaints she had received, the reason for the long queuing time was either that some nozzles were broken purported by the stations concerned or that there were inadequate manpower to man the stations. She had written to the operators to convey the LPG vehicle trades’ concern, and thereafter slight improvement was observed. The LPG vehicle trades believed that the fundamental problem was that the operators had to lose more money if they sold more LPG at dedicated stations. The trades also suspected that the present queuing problem was in fact a plot of the operators to press the Government to change the pricing mechanism. Although drivers had to wait for over 30 minutes or more at dedicated stations, they still chose to queue up at dedicated stations because they had to pay some \$40 dollars or more for each refill at non-dedicated stations and they could not recoup that amount by operating an additional hour. This was indeed a very tragic situation for LPG vehicle drivers.

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19. Ms LAU further said that the operators of dedicated stations were provided with the dedicated sites at nil land premium. They thus had the obligation to put the stations to full operation by operating all LPG nozzles. The proper way of handling the problem was not to allow the operators to raise LPG pump prices but to ensure that the LPG inventory could be replenished more frequently and timely to support the full operation of dedicated stations. She asked whether there were provisions in the DBO contracts to require the operators to operate all the LPG nozzles installed at the stations.

20. AD/EMS advised that there was no provision in the DBO contracts requiring the full operation of all the LPG nozzles at the dedicated stations. The practice of some dedicated stations making a false claim that some nozzles were broken and thus could not operate had been rectified recently. He explained that the crux of the problem lied in the supply chain of dedicated stations. To replenish the LPG inventory, the operator needed to transport LPG from the LPG reserve in Tsing Yi to individual stations. An LPG road tanker normally ran two to three rounds a day as each round took about 4 hours. Presently, the LPG road tankers of the operators of dedicated stations were running four to five rounds each day. Moreover, the road tankers needed maintenance after running a certain distance and there were safety rules to follow. So there was a bottle-neck in the supply chain. According to the DBO contracts, CRC was required to support a daily supply at dedicated stations of not less than 400 000 litres in total. Presently, CRC was supplying some 550 000 litres in total at its dedicated stations.

21. Ir Dr Raymond HO commented that the problem with the operation of dedicated stations had reached a critical stage. If the problem was due to the limited LPG inventory at dedicated stations, increasing the number of dedicated stations would be a possible solution. He suggested that instead of restricting the number of LPG nozzles in operation to maintain the inventory at a certain level, it would be preferable to operate all nozzles in response to demand and when the inventory was about to be used up, the operator should notify incoming vehicles to turn to other stations for refilling. In this connection, it would be necessary to find effective means to disseminate to drivers information on the supply situation of individual dedicated stations. The most important point was to avoid making drivers queuing for a long time. He also urged the Administration to strengthen communications with the LPG vehicle trades.

22. While accepting the need to strengthen communications with the LPG vehicles trades, DEMS said that it had yet to ascertain whether the arrangement suggested by Dr HO was acceptable to the trades. Over the past months, EMSD had done a lot of work with a view to limiting the queuing time to 30 minutes. He explained that the design of equipping each dedicated station with 24 nozzles was intended to meet the peak demand during the rush hours, i.e. 3:00 pm to 6:00 pm. Full operation of the nozzles during rush hours was possible when the LPG inventory could be fully replenished right before the rush hours and this in turn was possible on the condition that the demand was not that heavy during the non-peak hours. In the case of CRC's dedicated stations, they were presently supplying on average 550 000 litres each day and were operating near full capacity during non-peak hours. Under these conditions, its supply chain could not cope with the increased demand and fully replenish the LPG inventory of its dedicated

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stations right before the rush hours. That explained why the dedicated stations could not operate all the LPG nozzles during the rush hours at present. He appealed for members' understanding of the over-stretched situation at present. He remarked that EMSD had made an in-depth investigation into the situation and could confirm the situation described above.

23. Ir Dr Raymond HO urged the Administration to review the operation of dedicated LPG filling stations as a matter of urgency with a view to solving the problems identified satisfactorily and quickly.

24. Mr WONG Kwok-hing reiterated the strong dissatisfaction of the LPG vehicle trades. He suggested that the Panel convene a special meeting in early January 2006 to further discuss the matter, with the attendance of the Secretary for the Environment, Transport and Works and the trades. He cautioned that if the queuing problem was not addressed urgently, the trades' strong negative sentiments might be escalated to vigorous actions. In reply to his query on the status of his complaint lodged with EMSD on 12 December 2005, AD/EMS said that Mr WONG's complaint letter was received by EMSD on 13 December 2005 and EMSD would provide a written reply to Mr WONG shortly.

(Post-meeting note: The Administration subsequently advised that EMSD had provided a written reply to Mr. Wong on 17 December 2005, and rectified that Mr. Wong's complaint letter was received on 12 December 2005.)

25. Ms Miriam LAU said that while she did not object to convening a special meeting, she considered that both the Administration and the Panel already had a good grasp of the problem. She did not consider it a panacea by making more frequent adjustments to the LPG ceiling price for dedicated stations. She pointed out that the original intention of the half-yearly adjustment arrangement was to avoid frequent changes in LPG pump prices and this was to safeguard the interest of LPG vehicle trades. The Administration should not fall into the trap by allowing the operators of dedicated stations to make more frequent price adjustments.

26. The Chairman requested the Administration to provide a written response to the issues raised with suggested solution(s) by end December 2005. If members were not satisfied with the written response, a special meeting to further discuss the subject would then be convened. Members agreed.

27. DEMS reiterated that the LPG pump price at each dedicated station comprised two components, the LPG international price and the operating price fixed in the relevant DBO contracts. The Administration did not propose to make any change to these components. Allowing a more frequent ceiling price adjustment would only have the effect of enabling the pump price to reflect the changes in LPG international price in a more timely manner without adding to the operating cost of the transport trades.

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28. Mr Albert CHENG said that in preparing the written response, the Administration should give special consideration to the LPG trades' views. He also recapitulated that during the DRM meeting on 13 December 2005, the taxi trade requested that they be allowed to impose a fuel surcharge on passengers.

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