立法會
Legislative Council

LC Paper No. CB(1)925/09-10
(These minutes have been seen by the Administration)

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Panel on Economic Development

Minutes of meeting held on
Tuesday, 8 December 2009, at 4:30 pm
in Conference Room A of the Legislative Council Building

Members present :
Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Albert HO Chun-yan
Hon Fred LI Wah-ming, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Albert CHAN Wai-yip
Hon Vincent FANG Kang, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Starry LEE Wai-king
Hon Paul CHAN Mo-po, MH, JP
Dr Hon LEUNG Ka-lau
Hon IP Wai-ming, MH
Dr Hon Samson TAM Wai-ho, JP

Members attending :
Hon LEE Cheuk-yan
Hon WONG Kwok-hing, MH

Members absent :
Hon Paul TSE Wai-chun (Deputy Chairman)
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Tanya CHAN
Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Public officers attending	**:**	Agenda Item IV Mr Edward YAU, JP Secretary for the Environment Mr Roy TANG, JP Deputy Secretary for the Environment Ms Vyora YAU Principle Assistant Secretary for the Environment (Financial Monitoring)
Attendance by invitation	**:**	Agenda Item IV The Hongkong Electric Co., Ltd. Mr K S TSO Group Managing Director Mr C T WAN Director of Engineering (Planning & Development) Mr Neil D MCGEE Group Finance Director Mr Steve NG Group Manager, Finance & Accounting CLP Power Mr Richard LANCASTER Acting Managing Director Mr S H CHAN Corporate Development Director Ms Daisy CHAN Public Affairs Manager, Energy
Clerk in attendance	**:**	Ms Debbie YAU Chief Council Secretary (1)6

Staff in attendance : Miss Constance MAN
Senior Council Secretary (1)8

Ms Michelle NIEN
Legislative Assistant (1)9

Action

I Confirmation of minutes and matters arising

(LC Paper No. CB(1)560/09-10 - Minutes of special meeting held on 16 October 2009)

The minutes of the special meeting held on 16 October 2009 were confirmed.

II Information paper issued since last meeting

(LC Paper No. CB(1)552/09-10(01) - Tables and graphs showing the import and retail prices of major oil products from November 2007 to October 2009 furnished by the Census and Statistics Department)

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

III Items for discussion at the next meeting

(LC Paper No. CB(1)493/09-10(01) - List of outstanding items for discussion

LC Paper No. CB(1)493/09-10(02) - List of follow-up actions)

3. Members agreed to discuss the following two items proposed by the Administration at the next meeting to be held on 25 January 2010, at 10:45 am:

(a) Update on Hong Kong Disneyland; and

(b) Hong Kong Tourism Board Work Plan for 2010-2011.

IV Annual tariff reviews with the two power companies

(LC Paper No. CB(1)493/09-10(03) *(tabled at the meeting and subsequently issued via e-mail on 9 December 2009)* - Presentation materials provided by The Hongkong Electric Company Ltd.

LC Paper No. CB(1)493/09-10(04) *(tabled at the meeting and subsequently issued via e-mail on 9 December 2009)*	-	Presentation materials provided by CLP Power
LC Paper No. CB(1)493/09-10(05)	-	Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (Background brief))

Briefing by the Administration

4. The Secretary for the Environment (SEN) highlighted that as in the previous years, the Government had upheld a gate-keeping role when conducting annual tariff reviews with the two power companies, with reference to their respective five-year Development Plan submitted under the new Scheme of Control Agreements (SCAs) in 2008. The reviews had also taken into consideration the sales and expenditures of the two companies in 2009 as well as the demand forecast for 2010.

Presentation by The Hong Kong Electric Company Limited

5. At the invitation of the Chairman, Mr K S TSO, Group Managing Director of The Hongkong Electric Company Limited (HEC) said that under the new SCA, HEC was subject to more stringent requirements in respect of power supply, customer services and environmental protection. In particular, HEC had to meet the prescribed emission caps for 2010, to be achieved through, inter alia, an increasing use of natural gas from about 15% to about 30% of the company's total electricity generation. It was envisaged that with the use of an additional retrofitted gas-fired unit in 2010, HEC would be able to consume more natural gas for power generation. Besides, HEC's 2010 emissions in sulphur dioxide (SO_2), nitrogen oxides (NOx) and respiratory suspended particulates (RSP), would be 40% to 70% lower than those in 2005. However, these environmental targets and initiatives had posed a big challenge to the financial management of the company, in particular in view of the relatively higher cost of natural gas than coal. Notwithstanding this, Mr TSO was pleased to inform members that HEC would freeze its tariffs in 2010 to help Hong Kong recover from the financial crisis.

6. With the aid of power-point, Mr C T WAN, Director of Engineering (Planning & Development) of HEC highlighted that there would be no change in the tariff components for 2010 as follows:

Tariff components (cents/kWh)	Current (2009)	Changes (+/-)	Effective 1 January 2010
Average Basic Tariff	94.5	-	94.5
Fuel Clause Charge	25.4	-	25.4
Average Net Tariff	119.9		119.9

He said that compared with other major cities, HEC's tariff for domestic customers remained on the lower side of the range, and that household expenditure on electricity accounted for less than 2% on average of the total household expenditure of HEC's domestic customers. HEC's commercial tariff also compared competitively with that in other major economies. He drew members' attention that while some overseas areas (e.g. Idaho and Kansas of USA, South Africa, Vietnam and New South Wales of Australia) had witnessed tariff increase in mid to late 2009 even when the international coal prices had stabilized following the rapid upsurge in 2008, HEC had managed to freeze its tariffs despite rising fuel costs anticipated for 2010. Mr WAN highlighted that the crude oil prices had been on the rise in the current period, reaching about US$70-80/barrel, while the free on board price of coal in the Asia-Pacific region had risen to around US$80/ton. Freight charge was also picking up as reflected by the sharp rise in the Baltic Dry Index between early and late 2009. These challenges, together with the doubling use of natural gas for power generation, would inevitably increase HEC's fuel cost for 2010. It was notable that HEC had continued to provide world class services, achieving high ratings and satisfactory performance in 20 customer service standards.

7. On emission control, Mr C T WAN of HEC said that, apart from using more natural gas, two additional flue-gas desulphurization (FGD) plants and one more low NOx burner for coal-fired units would be put into service in 2010 to reduce emissions. Besides, HEC would continue to provide assistance to the needy through its concessionary tariff scheme which offered 60% discount for the first 200 units of electricity consumption to customers who were eligible for public assistance, including the elderly of 60 or above, recipients of disability allowance, single-parent families and the unemployed. HEC would continue to commit to providing safe, reliable and efficient electricity supply at reasonable price to its customers, and reducing emissions in power generation to minimize environmental impact. The Chairman remarked that the freeze in tariff made by HEC would be good news to the public.

Presentation by the CLP Power Hong Kong Limited

8. Mr Richard LANCASTER, Acting Managing Director of CLP Power

Hong Kong Limited (CLP) said that since the implementation of the new SCA on 1 October 2008, CLP had reduced its Basic Tariff by 10% till 31 December 2009. It nevertheless had to cover the record high fuel cost in 2008 by increasing the Fuel Clause Charge (FCC) for 2009. While CLP hoped to keep its tariffs at the 2009 level, it was facing increasing cost pressure, in particular in relation to emission control to meet the 2010 emission caps. Besides, following the signing of the Memorandum of Understanding between the National Energy Administration and the Government of the Hong Kong Special Administrative Region in August 2008 on the continuous supply of natural gas to Hong Kong in the coming two decades, CLP was making preparations for the new gas supply. At the same time, the company was anticipating the need to support the many infrastructural projects to be undertaken in the territory falling under CLP's service areas. Taking these factors into account, CLP needed to adjust the average Basic Tariff upward by 2.6 cents/kWh in 2010. On the other hand, while fuel prices remained record high, CLP managed to reduce FCC by 0.3 cent/kWh for the coming year, hence reducing the Net Tariff adjustment to +2.3 cents/kWh. Mr LANCASTER stressed that CLP had worked hard towards good cost control and prudent financial management to minimize the impact of tariff adjustment on its customers.

9. With the aid of power-point, Mr S H CHAN, Corporate Development Director of CLP highlighted CLP's tariff adjustment for 2010 as follows:

Tariff components (cents/kWh)	Current (2009)	Changes (+/-)	Effective 1 January 2010
Average Basic Tariff	77.4	+2.6	80.0
Fuel Clause Charge	11.8	-0.3	11.5
Average Net Tariff	89.2	+2.3 (+2.6%)	91.5

He said that there was a need to adjust the Basic Tariff for 2010 to a more sustainable level from the current level, mindful that it was the first time increase for more than a decade and stringent cost control had been in place to enable a lower rise than otherwise required. In considering its tariff adjustment, CLP had taken into account load and sales forecasts as well as the balances of the Tariff Stabilization Fund (TSF) and Fuel Clause Account. After the adjustment, 70% of CLP's residential customers would experience monthly tariff increase of $10 or less, while the monthly tariff for 70% of non-residential customers would increase by $40 or less.

10. Mr S H CHAN of CLP further explained that the upward adjustment in CLP's tariffs was attributed to various factors, among which was the need to support the Government's initiative on clean energy supply and associated

emissions control projects, e.g. retrofitting the coal-fired generating units at Castle Peak Power Station with FGD plants. Apart from capital projects, CLP would start on preliminary works for new natural gas supply for power generation, as well as enhancing its transmission and distribution network facilities to support Hong Kong's infrastructural development in the coming years. Moreover, CLP was facing rises in the cost of materials and equipment, in particular the prices of copper and aluminum which had surged since January 2009 by 40% to 100%. Nevertheless, CLP's Basic Tariff after adjustment remained highly competitive amongst other major cities (e.g. Tokyo, New York, London, Sydney and Singapore). He stressed that CLP would continue to improve environmental performance, control costs stringently, and enhance efficiency and productivity in order to maintain a high quality electricity service at a reasonable tariff.

Discussion

Tariff adjustment

11. Noting that after the adjustment, the new Net Tariff charged by CLP for 2010 would be as much as 0.4 cents/kWh higher than it was before the new SCA became effective on 1 October 2008, Mr WONG Kwok-hing raised objection against the increase for its negative impact on the nascent economic recovery. Welcoming the tariff freeze by HEC, Mr WONG considered that as both HEC and CLP were facing similar difficulties against the same background of gloomy economic outlook, such as higher operational costs, rising fuel prices and additional expenditure on emissions control projects, it was not justified for CLP to raise its tariff for 2010 despite it had maintained tariff flat for the past decade. Enquiring about the profit made by CLP in the first half of 2009, Mr WONG questioned the need for CLP to maximize their profit through increasing tariff for such a great extent. Mr Albert CHAN echoed the concern.

12. Referring to the bleak economic environment where enterprises and industries were struggling for survival and the average workers were living on low salaries, Mr LEE Cheuk-yan was worried that a tariff increase would lead to inflation impacting adversely on the general public. He pointed out that CLP was making more profit with the increase in the number of customers from 1.3 million to around 2.3 million. He was not convinced of the justifications put forth by CLP for increasing tariff, such as commissioning of emissions control projects, preparing for new gas supply and supporting local infrastructural developments. In his opinion, the SCAs were not schemes to "control" but to "guarantee" profits, and he questioned whether the two companies would need to maximize their profits. Mr Fred LI shared similar concern and pointed out that there were cases in the past where the two power companies had not maximized their profits. He enquired CLP about the percentage drop in profit if its tariff was to be frozen.

13. Mr Richard LANCASTER of CLP explained that the company had maintained its Basic Tariff at the same level for a decade and even with the current increase of 2.6 cents/kWh for 2010, the level would still be lower than it was in 1996. He further highlighted that CLP was entitled to earn a return which had

already been reduced from 13.5%-15% to 9.99% on the average net fixed assets (ANFA) under the new SCA, and brought down the Basic Tariff by 10% from October 2008.

14. Ms Miriam LAU had reservation about the reasons for an increase in Basic Tariff set out by CLP such as a flat tariff rate for a decade, and higher energy prices which should have been reflected in the FCC adjustment. In addition, she considered maintaining electricity supply reliability and meeting load growth were power companies' basic responsibilities rather than reasons for a tariff increase. Ms LAU enquired about the details of CLP's rising operational costs so as to assess the propriety of the tariff increase.

15. Mr Richard LANCASTER of CLP advised that high commodity prices throughout 2009 had led to increasing pressure on the costs of imported materials, such as limestone. He said that a tariff increase was necessary to meet the needs for environmental projects and supporting Hong Kong's infrastructural development. Mr LANCASTER further advised that tariff adjustment also hinged on the level of investments, sales and balance of TSF.

16. Noting the capital investment to be made by CLP, Ms Miriam LAU expressed concern about the extra profits to be reaped by CLP through an enhanced ANFA. Mr Richard LANCASTER of CLP advised that over the last 10 years, CLP had invested more than $50 billion in electricity supply facilities and rebated more than $4 billion to their customers. The investment for 2010 was necessary to meet the emissions caps in 2010 and to provide electricity support for community projects such as the Kai Tak Development, which was part of the capital expenditure in the current five-year development plan approved by the Government. As a listed company, CLP would have to take into account the investment return for shareholders. In response to Mr Ronny TONG's enquiry, Mr LANCASTER explained that the TSF balance had declined from $1.7 billion at the beginning of 2009 to $1.3 billion by the middle of the year, and was projected to be declining further down to a much lower level by the end of 2010 even after the tariff adjustment.

17. In response to Mr CHAN Kam-lam's further enquiry whether CLP's Basic Tariff in the coming five years could be maintained flat, Mr Richard LANCASTER of CLP said that the annual tariff reviews would consider a basket of factors including the investment level, the total sales and the TSF level. He explained that in addition to the investment required to meet the emission reduction targets, the tariff increase for 2010 was necessary to provide electricity for new community infrastructural projects, such as the development projects in Kai Tak and Kwun Tong, and to cover higher commodity prices.

18. Noting a surplus balance of $1.3 billion in TSF of CLP, Mr WONG Kwok-hing questioned whether the Government had been effective in monitoring CLP, in particular in approving the tariff increase for 2010. Mr LEE Cheuk-yan shared similar concern, considering that the Government should have taken into account the prevailing undesirable economic environment before giving approval.

19. SEN advised that the Government had performed its role as a gate-keeper by critically reviewing the need, timing and budget of the proposed capital projects during tariff reviews, in line with the previous practice of reviewing the five-year Development Plans with the two power companies, whereby capital expenditure of CLP and HEC had both been reduced by about 30% (i.e. from $56.6 billion to $39.9 billion for CLP, and from $17.4 billion to $12.3 billion for HEC). He highlighted that some of the projects, such as emissions control projects and transmission network facilities, were necessary to meet the 2010 emission cap and public needs. The Government would also make suggestions and propose modifications to the tariff review proposals, for example, the Government had negotiated with CLP for a smaller tariff increase for 2010, having regard to the impact of tariff increase on different sectors of the community. SEN emphasized that the Administration had operated within the framework of SCAs to ensure the provision of stable and safe electricity supply.

20. In response to Mr IP Wai-ming's concern on the power companies' obligation in taking heed of the Government's suggestions, SEN replied that the Government would strive to negotiate with the two power companies for the best interests of Hong Kong. An example was a 30% reduction in the rate of permitted return from 13.5%-15% to 9.99% on the average net fixed asset (ANFA) under the new SCAs, which was in response to the call for a single-digit return rate by the public.

21. In response to Mr IP Wai-ming's enquiry on the room for HEC to reduce its Net Tariff for 2010 given it would still be 28.4 cents/kWh higher than the CLP level, Mr K S TSO of HEC said that HEC was operating within the framework of SCA and the current tariff level was the best it could offer.

Disclosure of financial information

22. In response to Ms Miriam LAU and Mr Ronny TONG's request for financial information, Mr Richard LANCASTER of CLP pointed out that while CLP maintained a high degree of transparency through the announcement of financial information in annual reports, the company had to comply with the securities rules in respect of restrictions on disclosure of information such as sales forecasts and hence the projected level of TSF.

23. Mr Ronny TONG expressed disappointment about the lack of information, without which it would be difficult for Members to assess the propriety of the tariff increase. He urged the Government to make available information for the public to assess whether CLP's tariff increase was justified.

24. SEN advised that as listed companies, the two power companies would be required to follow established procedures in announcing some of its financial information, in particular sales and profit forecasts. However, some information was provided in the annual reports, the latest one of which showed that, as far as the operation in Hong Kong was concerned, the profit was reduced by 27% and

35% for the two companies. SEN advised that the Government would examine closely all investments affecting ANFA. With the consent of the two power companies, he disclosed the broad percentage of the three major categories of expenditure contributing to the tariff increase for 2010. The first category taking up more than 50% of the total ANFA was the infrastructural investment to support community development projects such as railway and urban developments, an example of which was the Kai Tak Development project. The second broad category taking up between 20%-30% of ANFA included the installation of desulphurization equipment and the construction of pipeline for gas supply. The last category was the operational costs. SEN explained that the Administration had examined the need and timing of the capital projects and assessed whether the rising operational costs were related to inflation. In response to Mr Ronny TONG's further enquiry, SEN replied that the Government had been able to negotiate with CLP for a smaller increase and he confirmed that the profit of CLP would be capped in accordance with the SCA even after the tariff increase of 2.6%.

25. Mr Fred LI enquired about the difference in real dollar terms in profits with the permitted rates of return at 9.99% and 13.5%-15%. Mr K S TSO of HEC suggested that reference could be made to their 2008 and 2009 Annual Reports. In response to Mr LI's further enquiry, Mr TSO explained that mid year financial results were notional that could not be used to predict profits for the entire year. Mr Richard LANCASTER of CLP shared the view of Mr TSO. He added that CLP had a high degree of transparency in their earnings as reported in the annual reports.

26. Mr Albert CHAN expressed concern about the limited amount of financial information provided at the meeting. He questioned whether the Government had played an effective role in urging the two power companies to provide more information such as revenues, operational costs, fuel prices, development project plans, balance sheets and forecasts, without which it would be difficult for Members to assess the propriety of the tariff adjustment. Given the limited amount of information provided at the meeting, Mr CHAN urged the Administration to enhance the transparency in approving the tariff review.

27. SEN agreed that the two power companies should enhance the transparency by providing financial information relating to the tariff adjustment. In response to Mr Albert CHAN's further enquiry, SEN remarked that the Administration had consulted members' views before the signing of the new SCAs and subsequently briefed members on the five-year development plans of the two companies in 2008. The Administration adopted the same prudent manner in examining the tariff review for 2010.

HEC 28. In response to Mr Albert CHAN's request, Mr K S TSO of HEC undertook to provide appropriate information related to the tariff freeze for 2010. Mr Richard LANCASTER of CLP said that considerable amount of information was provided in their annual reports. Reiterating that sensitive information could

CLP not be disclosed, Mr S H CHAN of CLP undertook to provide information related to the tariff increase for 2010 as appropriate.

Fuel Clause Charge and fuel portfolio

29. Ms Miriam LAU said that as a customer of HEC, she welcomed HEC's tariff freeze for 2010. Ms LAU was concerned that the increasing consumption of natural gas by HEC would aggravate the deficit balance of $0.8 billion of HEC's Fuel Clause Account and lead to significant tariff increase in the future.

30. Mr C T WAN of HEC responded that the use of natural gas would be increased by one fold from 0.3 million tons to 0.6 million tons, replacing about 0.6 million tons of coal in 2010. He advised that as natural gas was more expensive, there would be an increase in the overall fuel cost in 2010. However, if the use of natural gas was maintained at 30% for the next few years and with stable fuel prices, there would not be severe impact on the deficit balance.

31. Mr Fred LI opined that HEC's tariff freeze for 2010 might not result in less criticizm as the company had been charging more than CLP. Referring to the substantial drop in coal price from US$140/ton to US$80/ton, Mr LI questioned why HEC, which used 85% of coal in its fuel portfolio, was not able to offer a reduction in FCC. Mr K S TSO of HEC explained that as there would be an increase of 15% gas-fired generation in 2010, the cost saved from a drop in cost of coal could not cover the additional expenses incurred as a result of the increased use of natural gas.

32. Mr Fred LI expressed concern about the potential severe impact of high gas price on FCC. He enquired about the two companies' investment plans on generation units. Mr K S TSO of HEC said that additional units would be required if the ratio of natural gas generation was increased to 50%. Mr Richard LANCASTER of CLP advised that the existing eight gas-fired units could cope with a ratio of 50% for natural gas.

33. Mr Albert CHAN expressed concern about the considerable difference in the FCC level between the two companies with HEC and CLP currently charging 25.4 cents/kWh and 11.8 cents/kWh respectively. Noting the different review results in FCC by the two companies and pointing out that a reduction in FCC by HEC might lead to a reduction in its average Net Tariff, Mr CHAN requested an explanation by the Administration for such review results.

34. SEN explained that the difference in the FCC level was attributed to a difference in fuel mix where CLP used coal, natural gas and nuclear power, with each category taking up around one third of the total power output whereas HEC used only coal and natural gas at a current ratio of 85% to 15%. In response to Mr Albert CHAN's further enquiry, SEN added that the level of FCC hinged upon the balance of the Fuel Clause Account, which would translate into a fuel clause rebate or surcharge. To minimize its impact on tariff adjustment and hence the livelihood of the general public, the Government had negotiated with the two power companies to defer the recovery of the deficit balance of the Fuel Clause Account. In this connection, Mr Albert CHAN expressed reservation about

leaving too much flexibility for the two power companies to decide on the timing of recovery.

Environmental performance

35. Despite the increasing significance in global warming and environmental protection issues, the Chairman expressed concern about the need to strike a balance between commitment to environmental protection and cost control. Given the usage of natural gas and the fluctuations in gas price, the Chairman asked about the measures adopted by the two companies in fuel cost control, in particular those to be taken after meeting the emission requirement in 2010.

36. Mr K S TSO of HEC responded that the current trend was using more gas and less coal, but the pace of the fuel switch from coal to gas and the number of additional gas-fired units to be commissioned would hinge upon the Government policy after the public consultation on the Air Quality Objectives Review. Mr TSO further advised that while the price of 0.3 million tons of gas purchased in 2002 was fixed, the price of the additional 0.3 million tons would be linked to the international oil prices.

37. Mr Richard LANCASTER of CLP advised that the usage of natural gas for power generation in CLP began in 1996. CLP's diverse fuel portfolio had enabled it to maintain tariff stability amid price fluctuations in international markets. While there would be greater use of gas to be provided by the Mainland, CLP would look for a diverse supply source including pipeline gas from Central Asia, and imported natural gas from offshore gas fields in South China Sea so as to achieve pricing stability.

38. While appreciating the power companies' effort in securing a stable gas supply, the Chairman urged HEC and CLP to exercise better control on fuel cost when switching from coal to natural gas so that the public would not suffer from a rising tariff. He sought SEN's view on the role of the Administration in ensuring pricing stability.

39. SEN pointed out that air pollution and global warming in Hong Kong were mainly attributed to electricity generation which caused 90% of the sulphur dioxide emission and 60% of the carbon footprints in the city. One of the 19 measures proposed in the Air Quality Objectives Review aiming to meet the environmental standards set by the World Health Organization was to increase the ratio of natural gas in local electricity generation from 28% to at least 50%. SEN said that the Government had strived to reach agreement with the Mainland in the continuous supply of natural gas to Hong Kong, thereby obviating the need for CLP to build a local Liquefied Natural Gas receiving terminal and keeping the ANFA at a lower level. He added that while capital cost could be saved through cooperation with the Mainland, pricing of natural gas was subject to international market fluctuations. Notwithstanding this, greater benefits could be realized for Hong Kong if the power companies could switch to using cleaner fuel.

40. Noting the environmentalists' call for the use of green energy, Mr CHAN Kam-lam expressed concern that the public would have to bear the relevant cost of investment in the form of rising tariff. For example, part of the increase of 2.6 cents/kWh in CLP's Basic Tariff was to cover the expenses incurred by the installation of desulphurization plant. Mr CHAN opined that the Administration should carefully consider whether the consumers or the investors should shoulder the cost for environmental protection.

41. SEN explained that the two power companies were required to meet the emissions reduction target in 2010 which was mutually agreed between Hong Kong and the Mainland. For this purpose, the Air Pollution Control Ordinance (Cap. 311) was amended to stipulate a reduction of pollutants, in particular sulphur dioxide and nitrogen dioxide, by 2010, thereby imposing a statutory duty on the two power companies to install desulphurization plant. On clean fuel usage, SEN advised that the Government would continue to encourage the two companies to use more natural gas as one of the ways to meet the emission reduction target for 2010. The existing generating units of both companies could support a gradual switch from coal to natural gas by a bigger ratio.

42. Mr CHAN Kam-lam enquired about details of the additional expenditure incurred and the life span of the desulphurization plant. Mr Richard LANCASTER of CLP advised that the large-scale environmental project at the Castle Peak Power Station, which would be equivalent to about 25% of the capital expenditure over the coming five years, would bring improved air quality in Hong Kong through significant emissions reduction in sulphur dioxide by around 90%, nitrogen oxides by 50% and particulates. He added that the project, which needed to be completed in the next two years, was taken forward to meet the emissions caps stipulated in the Specified Process Licence and to facilitate new gas supply to be in place by 2012 before the existing gas supply for the Black Point Power Station ran out.

Concessionary tariff

43. Mr Fred LI expressed concern that CLP's tariff increase would be applied across the board from the rich to the poor. Worrying that the increase would translate into additional burden on people at grass-roots level who were not given salary increase for years or even faced a salary drop of around 2% as shown by the government statistics, Mr LI enquired whether CLP could offer concessionary rates or exemption to the underprivileged such as the elderly and the handicapped. Noting that HEC offered concessionary tariff to the underprivileged including the elderly, disabled, single-parent families and unemployed on Comprehensive Social Security Assistance (CSSA), Mr WONG Kwok-hing enquired whether CLP could offer the same to the needy.

44. Mr Richard LANCASTER of CLP clarified that the company offered concessionary tariff to eligible CSSA recipients who were above 60 years old for the first 400 units of electricity consumed. Mr S H CHAN of CLP outlined the impacts of CLP's tariff increase on customers and said that 70% of customers

would experience a monthly increase of $10 or less, which would be an increase of about $5 for customers consuming 200 to 300 units of electricity a month.

45. Mr IP Wai-ming expressed concern that the small salary increase between 1% and 2.9% as suggested by results of salary survey would be offset by the tariff increase. He was particularly worried about the vicious inflation caused by the tariff increase which would bring adverse impact on the survival of non-residential customers and the livelihood of the general public. Mr IP enquired about the feasibility of granting greater concessions to the underprivileged groups of customers by CLP.

46. Mr S H CHAN of CLP said that as the underprivileged groups of customers such as the elderly who lived alone and were eligible for CSSA were enjoying a 50% discount in tariff, the increase would translate into a monthly increase of $1 to $2 for the first 100 to 200 units of electricity consumed. Appreciating the additional burden on these customers, Mr CHAN considered that in view of the quality service brought by the additional infrastructural investment, the increase should be acceptable to them.

V Any other business

47. There being no other business, the meeting ended at 6:18 pm.

Council Business Division 1
Legislative Council Secretariat
22 January 2010