

立法會
Legislative Council

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Panel on Economic Development

Minutes of meeting
held on Monday, 27 February 2012, at 9:00 am
in Conference Room 1 of the Legislative Council Complex

- Members present** : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon Paul TSE Wai-chun, JP (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Andrew CHENG Kar-foo
Hon Vincent FANG Kang, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Starry LEE Wai-king, JP
Hon Paul CHAN Mo-po, MH, JP
Hon IP Wai-ming, MH
Hon Tanya CHAN
Hon Albert CHAN Wai-yip
- Members attending** : Hon WONG Kwok-hing, MH
Hon KAM Nai-wai, MH
- Members absent** : Hon Fred LI Wah-ming, SBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Dr Hon LEUNG Ka-lau
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Dr Hon Samson TAM Wai-ho, JP

**Public officers
attending**

: Agenda Item III

Mr Edward YAU
Secretary for the Environment

Miss Vivian LAU
Deputy Secretary for the Environment

Miss Linda CHOY
Political Assistant to Secretary for the Environment

Ms Vyora YAU
Principal Assistant Secretary for the Environment
(Financial Monitoring)

Agenda Item IV

Mr Andrew WONG, JP
Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)

Mr Philip YUNG, JP
Commissioner for Tourism

Miss Rosanna LAW, JP
Deputy Commissioner for Tourism

Agenda Item V

Mr Gregory SO
Secretary for Commerce and Economic
Development

Mr Philip YUNG, JP
Commissioner for Tourism

Mr CHAN Fan
Director of Electrical and Mechanical Services

Mr Harry LAI
Assistant Director/Gas and General Legislation
Electrical and Mechanical Services Department

**Attendance by
invitation**

: Agenda item III

The Hongkong Electric Co., Ltd.

Mr K S TSO
Managing Director

Mr C T WAN
Director of Engineering (Planning & Development)

Mr Neil D MCGEE
Group Finance Director

Mr K M WONG
Group Manager, Finance & Accounting

Ms Mimi YEUNG
General Manager (Public Affairs)

Ms Esme LAU
Public Affairs Manager (Media & Community)

CLP Power Hong Kong Limited

Mr Richard LANCASTER
Managing Director

Mr S H CHAN
Managing Director – Nuclear
CLP Holdings

Ms Daisy CHAN
Public Affairs Director

Mr Stephen CHOI
Strategic Planner

Ms Anthea CHENG
Senior Public Affairs Manager

Ms Grace SEK
Public Affairs Manager

Agenda item V

Ngong Ping 360 Limited

Mr Adi LAU
Chairman of the Board

Mr Wilson SHAO
Managing Director

Clerk in attendance : Mr Derek LO
Chief Council Secretary (1)6

Staff in attendance : Mr Timothy TSO
Assistant Legal Adviser 2

Ms Sarah YUEN
Senior Council Secretary (1)6

Ms Michelle NIEN
Legislative Assistant (1)6

Action

I Information papers issued since last meeting

(LC Paper No. CB(1)977/11-12(01) —Administration's paper on tables and graphs showing the import and retail prices of major oil products from January 2010 to December 2011

LC Paper No. CB(1)1080/11-12(01) —Administration's paper on Information and Consultation Agreement with The Hong Kong and China Gas Company Ltd

LC Paper No. CB(1)1114/11-12(01) —Submission from a member of the public on using innovation and technology to promote economic development and diversification of industries)

Members noted the above papers issued since the last regular meeting.

II Items for discussion at the next meeting

(LC Paper No. CB(1)1111/11-12(01) —List of outstanding items for discussion

LC Paper No. CB(1)1111/11-12(02) —List of follow-up actions)

2. Members agreed to discuss the following items at the Panel's March regular meeting –

(a) Mega Events Fund; and

(b) Fitting-out works for Government facilities associated with Midfield Expansion Project at Hong Kong International Airport.

(Post-meeting note: At the request of the Administration and with the concurrence of the Chairman, a new item on "Hong Kong International Airport Master Plan 2030" was subsequently added to the agenda of the March meeting.)

III Annual tariff reviews with the two power companies

Meeting with the two power companies and the Administration

(LC Paper No. CB(1)1111/11-12(03) —Administration's paper on supplementary information provided by the Power Companies on Five-year Development Plan and Annual Tariff Review – Elaboration on the Notes on Confidentiality

LC Paper No. CB(1)1111/11-12(04) —Letter from Hon Starry LEE Wai-king dated 8 February 2012

LC Paper No. CB(1)1111/11-12(05) —Administration's response to Hon Starry LEE Wai-king's letter dated 8 February 2012

LC Paper No. CB(1)1024/11-12(01) —Documents provided by the two power companies for discussion at the meeting of the Panel on Economic Development on 7 February 2012, and subsequently re-provided with

- the commercially sensitive information therein deleted
- LC Paper No. CB(1)1027/11-12(01) —Supplementary information paper provided by CLP Power Hong Kong Limited
- LC Paper No. CB(1)1009/11-12(01) —Administration's paper on the confidentiality arrangements regarding the supplementary information provided by the power companies in respect of five-year development plan and annual tariff review
- LC Paper No. CB(1)979/11-12(01) —Administration's paper on the supplementary information provided by the power companies in respect of five-year development plan and annual tariff review
- LC Paper No. CB(1)901/11-12(01) —Administration's response to the Chairman's request for the provision of further information regarding the 2012 tariff reviews with the two power companies
- LC Paper No. CB(1)791/11-12(01) —Administration's paper on the 2012 tariff reviews with the two power companies
- LC Paper No. CB(1)733/11-12(01) —Paper from CLP Power Hong Kong Limited
- LC Paper No. CB(1)733/11-12(02) —Paper from The Hongkong Electric Co., Ltd.
- LC Paper No. CB(1)760/11-12(01) —Supplementary information paper provided by The Hongkong Electric Co., Ltd.
- LC Paper No. CB(1)738/11-12(01) —Administration's paper on the progress of annual tariff reviews with the two power companies
- LC Paper No. CB(1)716/11-12 —Motions moved by Hon Emily LAU Wai-hing and Hon CHAN Kam-lam
- LC Paper No. CB(1)675/11-12(01) —Administration's paper on annual tariff reviews with the two power companies
- LC Paper No. CB(1)675/11-12(02) —CLP Power Hong Kong Limited's paper on CLP Power 2012 Tariff Review – Clarifications

- LC Paper No. CB(1)672/11-12(01) —Supplementary information paper provided by CLP Power Hong Kong Limited
- LC Paper No. CB(1)662/11-12(01) —Administration's letter dated 16 December 2011 on information concerning the two power companies requested by Hon Fred LI Wah-ming (LC Paper No. CB(1)572/11-12(01))
- LC Paper No. CB(1)662/11-12(02) —The Hongkong Electric Co., Ltd.'s letter dated 16 December 2011
- LC Paper No. CB(1)554/11-12(03) —Presentation materials provided by The Hongkong Electric Co., Ltd.
- LC Paper No. CB(1)554/11-12(04) —Presentation materials provided by CLP Power Hong Kong Limited
- LC Paper No. CB(1)633/11-12(01) —Presentation materials provided by the Environment Bureau
- LC Paper No. CB(1)572/11-12(01) —Letter from Hon Fred LI Wah-ming on "Annual tariff reviews with the two power companies" dated 8 December 2011
- LC Paper No. CB(1)554/11-12(05) —Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (Background brief)
- LC Paper No. CB(1)1182/11-12(01) Letter from Hon Fred LI Wah-ming dated 24 February 2012)

3. The Chairman drew members' attention to the following –

- (a) At members' request at the special meeting on 7 February 2012, the documents provided by the two power companies on their five-year development plans and the 2012 tariff review for discussion at that meeting had been re-provided to members with the commercially sensitive information therein deleted vide LC Paper No. CB(1)1024/11-12 dated 8 February 2012;
- (b) The Administration's Notes on Confidentiality regarding the paper on "Supplementary Information provided by the Power Companies on Five-year Development Plan and Annual Tariff

Review" had been issued vide LC Paper No. CB(1)1111/11-12 (03) on 24 February 2012; and

- (c) The Administration's response to Ms Starry LEE's letter dated 8 February 2012 had been issued vide LC Paper No. CB(1)1111/11-12(05) on 24 February 2012.

4. The Secretary for the Environment (SEN) also drew members' attention to the papers highlighted in paragraphs 3(a) and 3(c) above. He said that the Administration and the two power companies would endeavour to respond to the points raised in Mr Fred LI's letter dated 24 February 2012 tabled at the meeting.

Impact of fuel cost and investment expenditure on the tariff level

5. Mr CHAN Kam-lam highlighted CLP Power Hong Kong Limited (CLP)'s contract of gas supply from Yacheng signed in the 1990s, and enquired about the consequence of the expiry of the contract on CLP's fuel cost. Mr Richard LANCASTER, Managing Director of CLP, responded that the price of gas in this contract, which was signed in 1992, was linked to the prices of oil and other commodities which had been relatively stable until the recent sharp rise. Due to the depletion of gas from Yacheng gas fields, CLP had to secure new gas supply from the Mainland towards the end of 2012 to meet CLP's fuel requirement. CLP could not disclose the price of the new gas supply which was still under negotiation, but judging from the current price of oil, which was well over US \$100 a barrel, the price of new gas was expected to be much higher than that in the existing contract, which was signed when the oil price was around US\$ 20.

6. Mr WONG Kwok-hing expressed regret that the recent reduction of the rate of tariff increase had come only after arousing grave public concern. He referred to the five observations of the Environment Bureau (the Bureau) regarding the two power companies' 2012 tariff increase highlighted in paragraph 9 of LC Paper No. CB(1)979/11-12(01), and sought details on the following –

- (a) The amount of capital investment in preparatory work for additional generation capacity in paragraph 9(a) of LC Paper No. CB(1)979/11-12(01) which were said to have been prematurely included in CLP's 2012 tariff calculation and subsequently removed (the removal), and whether and when the items would be included again and the impact thereof on the tariff level; and
- (b) Whether the Administration considered it reasonable that CLP's Fuel Clause Recovery Account (FCA) deficit was increased by nearly three-fold from \$261 million at end 2011 to \$833 million

at end 2012, whereas the increase of The Hongkong Electric Co., Ltd. (HEC)'s FCA deficit from some \$1 billion at end 2011 to some \$1.4 billion in end 2012 was much smaller.

7. In response, SEN made the following points –
- (a) Under the current Scheme of Control Agreements (SCAs) with the two power companies, the Administration had been carefully vetting individual expenditure items, including capital investment, of the two companies to screen out items that were excessive, premature or unnecessary. This was conducted in the context of the annual tariff review in accordance with the SCAs and with regard to their five-year development plans. The Bureau's five observations had reflected the focuses of this vetting process and the Administration's differences in views with the two power companies. The vetting had taken the Bureau a longer time than it expected because of the failure to reach a consensus with the two power companies;
 - (b) The premature capital investment identified by the Administration involved undertaking preparatory work in 2012 to increase power-generation capacity for meeting electricity demand by the middle of this decade. However, based on the latest electricity demand forecast, the Administration did not see any urgent need for CLP to add generation capacity during its current five-year development plan period. Moreover, continuous investment in the relevant works would entail huge capital expenditure, eventually leading to larger increase in Basic Tariff in future. These premature capital investment items had therefore been removed from the calculation of the 2012 tariff adjustment. Whether they would be included again would hinge on future need. The Administration would review this when vetting CLP's five-year development plan and conducting annual review of its plan in future;
 - (c) FCA was operated on a rolling basis. It was an account maintained by the power companies through which the difference between the standard fuel cost (as reflected in the Basic Tariff), and the actual fuel cost was captured and passed on to consumers by way of rebates or charges. Together with the tariff stabilization fund (TSF), FCA could ameliorate tariff increases by deferring the recovery of actual fuel costs from the consumers as appropriate. Since the actual deficit balance of FCA might vary because of changes in fuel cost, the Administration would carefully examine the two companies' FCA balance every year; and

- (d) The two power companies' FCA deficits reflected the levels which the companies estimated they could bear.

8. On the issue of the capital investment, Mr Richard LANCASTER of CLP referred members to page 12 of Annex 1B to LC Paper No. CB(1)1024/11-12(01), and pointed out that the removal had resulted in a reduction of the Average Net Fixed Asset increase of about \$300 million in 2012 out of the total capital expenditure of around \$8 billion. He stressed the need to plan ahead to make sure CLP would have adequate power-generation capacity, and considered it prudent to start preparation work for additional generation capacity projects in 2012, given the lead time necessary. He explained that the options in this regard included measures to reduce electricity demand, and options to meet new generating requirements in the most cost-effective way. As regards FCA, Mr LANCASTER said that CLP had seen FCA deficit since 2007 and was facing a major shift in fuel procurement as it introduced new gas supply in 2012 at a price reflecting more closely the current international gas price and hence much higher than that paid under CLP's previous gas contract from Yacheng. The increase in fuel cost would be sustained over the life of the new gas contract.

9. On FCA, Mr C T WAN, Director of Engineering (Planning & Development) of HEC, said that to contain tariff increase, HEC had not fully recovered its actual fuel cost for many years. This had resulted in deficit in HEC's FCA at \$1 billion at end 2011 representing some 20% of HEC's total fuel expenditure in the year. The deficit was forecast to increase to about \$1.4 billion by end 2012 meaning that the above percentage would go up to a historic high of around 25%.

10. The Chairman urged the Administration to ensure that the expenditure items which CLP had taken out from its 2012 tariff calculation would, where necessary, be included in the tariff review by phases, so as to minimize their impact on the tariff level. He also urged the Administration and the two power companies to seriously take public expectations into consideration when conducting the 2013 tariff review, and to prepare for escalating fuel prices and their implications on the tariff level, especially as the FCA deficit and the Government rent and rates to be refunded to them as a result of relevant court cases (the anticipated rent and rates refund) might not be used to contain tariff increase every year. The Chairman further asked the Administration and the two power companies to enhance the transparency of the tariff review mechanism by providing details such as terms of fuel supply contracts, calculation of fuel price and forecasts of tariff adjustment. This would help prepare the public well for tariff increase.

11. Mr Richard LANCASTER of CLP responded that CLP was under great cost pressure due to the need to use more natural gas for power generation to meet environmental regulations, and the substantial increase in

the price of imported fuel since 2008, which was expected to continue to double or even triple CLP's fuel cost. He further explained that it might be unreasonable to expect tariff to increase at a rate below the inflation rate if the rate of fuel cost increase was much higher than inflation. This was because fuel cost amounted to around 45% of the cost of electricity. Moreover, since CLP had to purchase fuels in the international market, the rate of fuel increase would also be set by international markets rather than the inflation rate in Hong Kong. As an economy which had to import 100% of its fuels, Hong Kong always had to cope with price increase in international markets. Despite successful efforts made in the past to keep fuel cost down, as the demand for fuel products increased around the world, CLP simply had to purchase fuels at prices more in line with international prices and the prices in the Mainland.

Fuel price

12. Mr C T WAN of HEC added that HEC at present generated electricity 100% from fossil fuels the prices of which had, as CLP described above, fluctuated significantly. However, HEC had two gas contracts. The price of the new contract which took effect in 2010 was fluctuating in line with international oil prices while the one which took effect in 2006 also moved with international oil prices subject to a price cap. Since the fuel price which HEC was paying was already at high levels, including CIF price for coal which was approaching US\$130 per ton, the scope of further increase might hopefully not be too great. He, however, could not make any specific forecast of the rate of fuel price increase.

13. SEN supplemented that electricity tariff was made up of two parts, namely, the Basic Tariff and the fuel clause charge. To ensure that tariff increase could be contained to address public concern, the Administration would play a gate-keeping role where cost control relating to the Basic Tariff was concerned through the two power companies' five-year plans and the annual tariff review. As to the fuel clause charge, the Administration would urge the two power companies to, as far as practicable, use FCA and TSF as buffers to mitigate the cost impact of any switch from old fuel contracts to new contracts, and any significant fuel price fluctuations in the international market. While the situations of the two companies were very different due to their different fuel mix, both of them would be required to make wider use of cleaner natural gas in future.

Measures to mitigate pressure of tariff increase

14. While acknowledging the efforts made by SEN to reduce the tariff increase for 2012, Ms Miriam LAU pointed out that the reduction seemed to have been made possible only by exhausting all possible measures, such as by increasing the deficit balances of the two power companies' TSFs and

FCAs, taking out certain expenditure items, using the anticipated rent and rates refund, etc. She expressed concern about whether the above measures could be repeated to keep tariff increase below the inflation rate, and enquired whether additional measures could be taken to ensure that future tariff increase would be reasonable despite the two companies' maximum permitted rate of return of 9.99% (the permitted rate of return) on the average net fixed assets for the year under their current SCAs.

15. SEN responded that in keeping with its monitoring role, the Administration would do its best to vet the two power companies' expenditure items under the tariff review mechanism every year. The Administration would, as in the past, adopt the following measures to ensure reasonable tariff adjustment –

- (a) ensuring that any necessary developments and service improvements of the power companies would proceed within the scope of their five-year development plans approved by the Government;
- (b) vetting the two power companies' operating expenditure and raising query about unreasonable items;
- (c) using the two power companies' TSFs to mitigate pressure of tariff increase, and their FCAs to tackle sharp fuel cost increase due to the expiry of existing fuel supply contracts or fluctuations in supply; and
- (d) examining whether any special income of the two companies could be used to offset cost increase.

16. Ms Starry LEE expressed concern about the likely tariff increase due to escalating fuel prices and the need to develop renewable energy. She urged the Administration to begin the negotiation process of the 2013 tariff review early as it was expected to be long. To avoid controversies similar to those that occurred in the 2012 tariff review, she urged the Administration to examine whether the two power companies' fuel procurement could be improved by practices such as hedging in order to keep costs down.

17. SEN gave the following response –

- (a) The FCA would help mitigate fuel price increase;
- (b) Independent consultants engaged by the Administration would also vet the two power companies' fuel supply contracts though how exactly they secured the contracts would still be left to them;

- (c) Hedging might not necessarily save cost but could lead to loss. The signing of different long-term fuel supply contracts might be preferable; and
- (d) The Administration had already made efforts in managing electricity demand in the context of the "Hong Kong's Climate Change Strategy and Action Agenda". For example, through the Buildings Energy Efficiency Funding Schemes launched with the allocation of \$450 million from the Environment and Conservation Fund, subsidies on a matching basis were provided to encourage building owners to undertake energy saving projects and conduct energy-cum-carbon audits.

Investment in transmission and distribution networks

18. Ms Starry LEE opined that to contain tariff increase, the Administration should take measures to limit the investment in transmission and distribution networks in the two power companies' five-year development plans. In response, Mr C T WAN of HEC explained the need for the planned transmission and distribution stations included in HEC's current five-year development plan as follows –

- (a) The Marsh Road Substation and associated transmission cable circuits project was the only major transmission project included in HEC's current five-year development plan. Given the many procedures involved in finalizing the project, the relevant preparation had in fact started in 1999;
- (b) The only new transmission station planned was a small-scale compact zone substation in Eastern District to ensure the reliability of power supply and meet additional power demand. Other relevant works mainly involved cable replacement, among which the cable replacement for Kennedy Road-Davis 132kV circuits and for North Point-Parker 132kV circuits were not new projects but ones having been implemented since 1999 by phases; and
- (c) As to distribution stations, to meet power demand of new customers and new buildings, such as the new Central Government Offices and Legislative Council (LegCo) Complex in Tamar, some 40 distribution stations would be commissioned every year.

19. Mr Richard LANCASTER of CLP added that in addition to regular replacement of aged or obsolete equipment to maintain reliability of CLP's power systems, CLP also saw a need to meet in its current development plan

new demand from the higher growth of populations in Kowloon and the New Territories, and from new infrastructure projects being taken forward by the Government and MTR Corporation Limited (MTRCL). Mr S H CHAN, Managing Director – Nuclear of CLP, supplemented that many of CLP's transmission and distribution projects would be conducted in response to infrastructure projects, the majority of which were located in Kowloon and the New Territories, such as the West Kowloon Cultural District, the Kai Tak area (notably the new cruise terminal), expansion of a few universities, etc. Annex 1A to LC Paper No. CB(1)1024/11-12(01) had listed out the relevant transmission and distribution projects in CLP's current five-year development plan, for example: the substations for South East Kowloon, Pak Shek Kok, West Kowloon Reclamation, and Chui Ling Road (Tseung Kwan O Development), etc. In addition, there were transmission and distribution projects included in response to Government housing and district development projects in Fanling, Tin Shui Wai and Shatin.

Reserve margins of the two power companies

Magnitude of reserve margins

20. Mr CHAN Kam-lam considered the reserve margins for generating capacity of the two power companies excessive, and opined that the Administration should more stringently vet the capital investments in generation capacity in the two companies' five-year development plans. Mr Richard LANCASTER of CLP responded that to ensure that power demand could be met every minute, there was a need to maintain some reserve capacity to prepare for possible plant breakdowns and for maintenance of generating units. CLP's reserve margin, at only 32%, was well within the normal range of international benchmarks considering that in many overseas countries, the typical reserve margins were 25% to 35%.

21. SEN added that reserve capacity was required to meet the peak electricity consumption of the year though demand fluctuated during the year. He referred members to the Administration's response to Ms Starry LEE's letter dated 8 February 2012 (LC Paper No. CB(1)1111/11-12(05)) on how the two companies respectively worked out their reserve margins. He assured members that when vetting the two companies' development plans, the Administration had ensured that their reserve capacities would not be excessive, and that the energy consultant engaged by the Administration also considered the planning criteria adopted by CLP adequate in providing reliability to customers. The two companies' reserve margins had not increased since their new SCAs took effect in 2009. CLP's reserve margin had even dropped from 39.1% in 2009 to 32.6% in 2011. In the current development plan period starting from end 2008, the Administration had not approved additional generators for the power companies.

22. Ms Starry LEE urged the Administration to make better efforts to minimize the two power companies' high capital investment in generating capacity and hence pressure of tariff increase.

Calculation of reserve margins

23. Referring to the Nominal Reserve Margin Percentages of 47% for HEC and 32.6% for CLP, Ms Starry LEE enquired how the two power companies worked out the reserve. Mr Richard LANCASTER of CLP responded that the maximum demand was in fact the peak demand in any year. As the demand for electricity grew at a rate between 1% and 2% per annum in response to new population and with the commissioning of new infrastructure such as railway systems, the peak demand also grew. While the peak demand in a year would be used to calculate the reserve margin, regard was also given to factors including the following –

- (a) the number of days and hours close to peak demand would increase every year;
- (b) the general level of peak demand was going up steadily, and
- (c) the weather considerations on very hot days, when there was high air-conditioning demand.

There was therefore a need to set an indicator of the maximum demand for planning and operation, so as to prepare for the highest demand that Hong Kong might experience, and to alert CLP as a power provider to the need to ensure that it would have sufficient capacity to meet such demand.

24. Mr C T WAN of HEC said that according to the Specified Process Licence (SPL) for the Lamma Power Station & Extension, for emission control reasons, only the eight coal-fired units and the two gas-fired combined cycle units were allowed to generate electricity for the system under normal operating conditions, and the four 125MW light gas oil-fired gas turbines and one 55MW black start light gas oil-fired gas turbine would only be operated in emergency situations or put in service for short periods of time for peak-opping purposes. Hence in calculating the Total Usable Generating Capacity, the aggregated ratings of these five oil-fired gas turbine units (with a total of 555MW) should be taken out from the Total Nominal Installed Capacity and, after taking out these units, the Reserve Margin Percentage was in fact only 25%.

Fluctuation in electricity demand

25. Ms Starry LEE enquired about the respective differences between the maximum demand and the minimum demand of the two power companies,

and what their respective reserve margins would be if the margins were calculated on the basis of the average demand instead of the maximum demand.

26. Mr S H CHAN of CLP responded that in Hong Kong, electricity demand from July to September was high because of the need for air-conditioning in the hot summer. Since sufficient reserve capacity was required to ensure system reliability at all times, the calculation of reserve margin in the electricity industry all over the world was based on the maximum demand.

27. Mr C T WAN of HEC supplemented the following points –

- (a) As electricity could not be efficiently stored, sufficient reserve capacity had to be maintained to balance electricity supply and demand at all times. Inadequate supply in meeting the demand in a power system, even though for very short time, might lead to system instability or even large-scale blackout. Maximum demand (rather than electricity consumption which was represented by electricity demand over a period of time) was therefore a major parameter in planning and operation of power supply; and
- (b) The air temperature over a small territory like Hong Kong Island would change more or less at the same time and hence power demand of it could change very rapidly. The five units of light oil-fired gas turbine with aggregated ratings of 555MW were therefore essential to meeting such sudden change of power demand.

28. At members' request, the two power companies agreed to provide graphs plotting the annual trend of electricity consumption on a monthly basis, showing the monthly average, the monthly high and the monthly low consumption, so as to enable members to ascertain whether the two companies' calculation of reserve margins was reasonable.

(Post-meeting note: The above requested graphs were issued vide LC Paper No. CB(1)1360/11-12 on 20 March 2012.)

Need for capacity reserve

29. Notwithstanding the above explanation, Ms Starry LEE expressed doubt that during most of the year, the reserve margins of the two power companies might be much larger than those reported by them above because energy consumption varied greatly during the year. Mr Richard LANCASTER of CLP responded that although electricity demand was low

during winter months, long outages for generator maintenance would be scheduled in non-peak seasons, so that during the periods concerned the available generation capacity might be significantly reduced. To satisfy demand in a secure and reliable manner, total installed capacity had to exceed the forecast maximum demand at any time, and should include a margin of reserve to cater for system maintenance. He further explained that the calculation of the reserve margin on the basis of the maximum demand was a standard adopted all over the world. All economies had to maintain certain reserve margins though the range would depend on their circumstances and how critical it was for power supply to always be able to meet customer demand. For example, in Singapore, the regulator had specified a minimum reserve margin of only 30%, but the current reserve margin was 56%; in Japan and the United Kingdom, current reserve margins were 54% and 39% respectively.

30. Mr C T WAN of HEC echoed CLP's point on the need to maintain a reasonable reserve margin in the light of local circumstances to cater for system contingency and allow for shutdown of the generating units for maintenance and overhaul. He further added that two of HEC's eight coal-fired units and all the two gas-fired combined cycle units used to generate electricity for the system under normal operating conditions were currently under overhaul.

Administration's gate-keeping role

31. Ms Starry LEE said that the public might consider a reserve margin of some 30% unacceptable. She urged the Administration to continue to play its gate-keeping role in the light of her concerns and questions raised above. She also urged SEN to negotiate with the two power companies on how their reserve margins could be put to better use, such as by adjusting their tariff structures or other means.

32. SEN responded that the discussion at and papers provided for the previous meetings of the Panel held to discuss the 2012 tariff review could help members understand the operation of the two power companies and how the Administration monitored them. The Administration had all along attached great importance to ensuring that the two companies' reserve margins and capital investments were reasonable. In consideration of their existing reserve margins, the Administration had not approved additional generators, not even relevant preparatory work, for the power companies in the current development plan period starting from end 2008. The Administration would continue such gate-keeping efforts when it vetted the companies' five-year development plans and when it conducted the annual review of their plans, and would propose changes to the operating expenditures of the two power companies.

Other sources of electricity

33. Ir Dr Raymond HO declared that he was Chairman of the Daya Bay Nuclear Safety Consultative Committee, and enquired about the proportion of nuclear-generated power in Hong Kong after the nuclear plant incident in Fukushima to meet public aspirations regarding the stability and affordability of electricity tariffs. He considered it necessary for the Administration to disclose its stance in this regard to facilitate early preparation by the two power companies.

34. In response, SEN made the following points –

- (a) The Administration had made efforts to generate power in a low-carbon, stable and environment-friendly way. Apart from proposing to increase the share of renewable energy to about 3 to 4% of the fuel mix by 2020 in the "Hong Kong's Climate Change Strategy and Action Agenda" consultation document, the Administration also aimed to adjust the fuel mix to use gas instead of coal as the major fuel within a short time to improve air quality. In this regard, the aim to ensure that gas would take up 50% of the fuel mix in 2015 for local power generation was progressing well, with a 71% reduction in the sulphur dioxide emission from the two power companies together between 2007 and 2010;
- (b) Meanwhile, the two power companies were required to retrofit their coal-fired generating units still in use with Flue Gas Desulphurization device. It was believed that consumers were willing to bear the relevant cost in return for better air quality; and
- (c) In the medium and long term, if there was public support for Hong Kong to become a low carbon city, it might be necessary to further replace coal with nuclear and renewable energy. However, although nuclear energy had the advantage of having a stable price, as a result of the Fukushima nuclear plant incident, whether the ratio of nuclear energy could be raised would hinge on the future development of nuclear energy generation in the world, in particular Guangdong. Time would therefore be required to make a decision in this regard. As to renewable energy, apart from proposals to develop off-shore wind farms by the two companies, one of them had also established a solar energy generation system. However, renewable energy would not be able to take up a major role in power generation and was costly. As such, in the meantime the major focus when working on the next five-year

development plans would still be placed on achieving the above 2015 target of reducing the use of coal by phases, and examining low-carbon power generation.

35. Ir Dr Raymond HO highlighted the concern about and the difficulty and high cost involved in the development of renewable energy in Hong Kong, the high price of gas and the air pollution caused by the use of coal, and said that it was important for the Administration to strike a proper balance among the three factors above in working out the way forward. In reply to him on when the Administration would make a decision in this regard, SEN echoed his view on the need to strike a balance to ensure Hong Kong could have reliable, safe, environment-friendly and affordable power supply. A more economical and sustainable method to supply natural gas to Hong Kong had therefore been adopted through using the Second West-East Natural Gas Pipeline, and a higher maximum permitted rate of return had been allowed in the current SCAs to encourage the two power companies to use renewable energy. However, the Administration would still need to carefully vet the cost of the relevant projects. Where nuclear energy was concerned, there was also a need to take note of new safety requirements and standards adopted by the Mainland and the world to address public concerns in the wake of the Fukushima nuclear incident. As such, the Administration considered it prudent to take a longer time before coming to a decision on the way forward.

Other views and concerns

36. Mr CHAN Kam-lam asked whether the contract on electricity sale to the Mainland was renewed every year. Mr Richard LANCASTER of CLP responded that the contract was negotiated roughly once every year depending on demand from the Mainland.

37. Ms Starry LEE urged the two power companies to make efforts to encourage energy saving to contain electricity demand and obviate the need to make further capital investments in this regard. In her view, the inclusion of such investments in the calculation of tariff adjustment would boost profits and hence give rise to the need to increase tariffs. The two companies noted her views.

38. Mr CHIM Pui-chung highlighted the two power companies' monopoly of the power market because of the Government's tilted policy in favour of them, and said that greater control should be imposed on their capital investments in recognition that many factories had already moved to the Mainland, so that power demand in Hong Kong should have reduced instead of increased as they claimed. Pointing out that 2016, in which the two companies' SCAs were due for renewal, would be an election year, he cautioned that pressure would be mounting to restrict the Government from

renewing the SCAs on terms which were too lenient, and urged the Administration to make preparations early for changes in this regard, having regard to the need to compensate the two companies if their SCAs would not be renewed. He further pointed out that many Mainland power companies were operating at a loss because of the restrictions imposed by the Government on tariff increase. The two power companies should therefore not take for granted that they would always be able to earn the maximum permitted rate of return of 9.99%. Instead, they should always seek to justify their tariff increase.

39. SEN responded that as could be gathered from the discussion at and the papers provided for the previous meetings of the Panel held to discuss the 2012 tariff review, the Government had been actively playing a gate-keeping role when vetting the two power companies' five-year development plans and when conducting the annual tariff review. He, however, echoed Mr CHIM Pui-chung's view on the impacts of Hong Kong's economic changes over the years on power consumption, and explained that this was why the Administration had provided more details on the two companies' five-year plans to enable members to assess whether their capital investments were too excessive or early. As could be seen from their five-year plans starting in 2009, the Government had cut the capital investments which they had applied for by some 30%, and the investments had all along been kept below those approved in their plans in keeping with the Administration's forecast that there would not be any significant increase in power demand in future. Along this line, the Administration had also requested one of the two companies to take out certain premature capital investments. SEN further said that as in the 2008 exercise, the Administration would conduct a public consultation exercise on whether to renew the SCAs. Before renewing the SCAs, it would consider introducing new terms as necessary in the light of views solicited, including lowering their maximum permitted rates of return, imposing new environment requirements, and making new arrangements regarding investment caps, etc.

40. Summing up, the Chairman thanked the Administration and the two power companies for attending the meeting, and indicated hope for the Administration to give regard to the views expressed by members at this meeting, namely, that the Administration should make better efforts to monitor the two power companies, in particular their operating and capital expenditures; and that the two companies should make better efforts to contain cost, in particular fuel cost. According to him, members also hoped that the companies would in future be more ready to provide information requested by them, and would enhance the transparency of fuel costs and better explain the relevant information to the public. He further indicated hope that as a result of the above efforts, the tariff adjustment in 2013 would be contained within public anticipation.

IV Review of the Operation and Regulatory Framework of the Tourism Sector in Hong Kong - Consultation Findings and Proposed Way Forward

(LC Paper No. CB(1)679/11-12(01) —Administration's paper on review of the operation and regulatory framework of the tourism sector in Hong Kong – consultation findings and proposed way forward

LC Paper No. CB(1)1111/11-12(06) —Paper on the review of the operation and regulatory framework of the tourism sector in Hong Kong prepared by the Legislative Council Secretariat (Background brief)

41. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) and the Commissioner for Tourism (C for Tourism) together briefed members on the findings of the public consultation on the review of the operation and regulatory framework of the tourism sector in Hong Kong, and the Administration's proposed way forward.

The Travel Industry Authority

Functions

42. Mr CHIM Pui-chung stated support for the proposed way forward but commented that in establishing the proposed Travel Industry Authority (TIA) as an independent statutory body for the overall regulation of the tourism sector, reference should be made to the Securities and Futures Commission, so as to enable it to effectively monitor the trade's operation, strike a balance among the interests of different parties concerned, safeguard tourists' interests, and promote business for the trade to enable tourism to make bigger contribution to Hong Kong's economy. The body should co-operate with tertiary institutions to offer courses in tourism to enhance service quality and the standard of trade practitioners.

43. PSCIT responded that the TIA would perform functions similar to those of the Estate Agents Authority in regulating the operation of the tourism sector. The Administration hoped that the TIA could advise the Government on matters relating to the overall policy of tourism development. Since annual reports on its operation and expenditures would be provided to LegCo for perusal in future, there should be no concern about how it used its

funding.

44. The Chairman highlighted the need to ensure the TIA would give due regard to the trade's views and closely co-operate with the trade to properly handle the many incidents which had occurred in Hong Kong and overseas involving operation of the travel agents and the tourism policies of Hong Kong and the places concerned, and to provide suitable assistance to affected tourists. The Administration noted his views.

Source of funding

45. While stating the support of Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong for the proposed way forward, Mr CHAN Kam-lam asked for estimates on the funding required by the future TIA, and on the cost savings for the Government arising from the handover of the licensing of travel agents from the Government to TIA. He further enquired about the relevant funding arrangements, and highlighted the need to note that tourists and the trade were reluctant to see increases in the levy on outbound tours and licence fees because of the need to support a bulky TIA.

46. PSCIT responded that the funding required might range from \$50 to \$55 million but this was only a rough estimate pending the availability of more details on TIA's functions and in turn its manpower requirements and income from fees charged. The future TIA would be mainly funded by the levy on outbound tours, licence fees from travel agents and Mainland inbound tour registration fees. Since at present such fees totalled only some \$30 million, the Administration would consider providing a one-off capital grant to TIA as seed money to support the operation of the independent body at its initial stage. Although the Travel Industry Council of Hong Kong (TIC) had deployed substantial resources in regulating Mainland inbound tours in recent years, income from the registration fee for Mainland inbound tours was low because the fee was low. There was much room for upward adjustment of the fee. However, whilst aiming at operating the TIA on a self-financing basis in the long run, to reduce the impact on the industry, the Administration would not propose any significant adjustment to the above licence fees from travel agents and the levy on outbound tours immediately upon the establishment of the TIA.

47. Mr CHAN Kam-lam opined that the Administration should disclose the above plan to increase the registration fee for Mainland inbound tours early in recognition of its impact on the relevant trade and on the number of Mainland visitors to Hong Kong. PSCIT responded that when consulting the trade on the proposed way forward during the past few months, the trade had been alerted to the likely adjustment of the registration fee.

48. Mr Paul TSE declared that he was the owner of a travel agent. He opined that the above contemplated move to increase the Mainland inbound tour registration fees was fair. The Administration should also consider reintroducing the long waived hotel accommodation tax (HAT), considering that hotels had benefitted greatly from the increase in visitors to Hong Kong during recent years, while profits from Mainland inbound tours was in fact small notwithstanding the great efforts made to regulate them. PSCIT responded that since HAT was a tax and not a levy, the relevant policy considerations were different.

49. Mr Paul TSE further enquired whether there was a definite period during which there would not be any significant increase in the levy on outbound tours, and the licence fees from travel agents. PSCIT responded that the Administration could only say that they did not see any need to significantly adjust the levy and licence fees to support the operation of the TIA at its initial stage. The Administration at present only saw room for a substantial upward adjustment of the Mainland inbound tour registration fees but the trade would be consulted on the adjustment rate beforehand.

Operational aspects

50. Mr Albert CHAN indicated agreement to the proposed establishment of the TIA but drew the Administration's attention to the following three factors which might affect the TIA's operation –

- (a) Composition of the TIA Board. How representative the TIA was would be determined by the way in which members of its board were appointed. The ratio of members from the trade to those from the public and the Government might be specified in the relevant legislation;
- (b) Meetings. At present, most similar setups held meetings behind closed doors. The public, in particular the mass media, had no access to details of their discussions. To enhance transparency, unless confidential or personnel matters were discussed, all meetings of the TIA should be made open; and
- (c) Funding source. Stable funding was essential to the TIA in performing its functions effectively. Consideration could be given to transferring the administration of the Mega Events Fund (MEF) from the Tourism Commission (the Tourism) to the TIA.

51. C for Tourism made the following points in response to Mr Albert CHAN –

- (a) Regarding composition of the TIA Board, the principle was that

to ensure credibility and independence of the TIA, the Chairman should be a non-trade member, and that non-trade members drawn from different professions should form the majority. However, the Administration had also proposed that there should be adequate trade members serving the TIA Board and its committees to ensure that the TIA would possess the necessary knowledge and expertise in the operation of the trade. As such, while all members of the TIA Board would be appointed, the Administration would also consider the views of the trade and the public on how trade members were to be selected and on their number when finalizing the relevant details. The Administration had no fixed stance at this stage and would finalize the details after consulting the trade and the public. The finalized arrangements would then be clearly specified in the relevant legislation;

- (b) As regards the way in which the TIA should conduct its meetings, the Administration would make reference to practices of similar set-ups while giving due regard to the need to ensure transparency and accountability of the TIA. The annual reports of the TIA would be submitted to LegCo for consideration. The Administration would also consider views from different parties when working out details of the TIA's actual operation and the relevant legislation; and
- (c) Apart from the three sources highlighted above, the Administration would examine the need for further sources from two perspectives, namely, the TIA's actual operation and manpower requirement, which would be finalized in due course.

52. PSCIT added that it might not be appropriate to transfer to the TIA the administration of MEF, which had in fact been established to assist local non-profit-making bodies to host more attractive arts, cultural and sports events in Hong Kong to attract more visitors to Hong Kong.

Views on the regulatory framework

53. Mr Albert CHAN opined that to maintain Hong Kong's attractiveness as a tourist destination, the opportunity of the proposed reform of the current regulatory regime of the tourism sector should be taken to make the TIA and the Commerce and Economic Development Bureau (CEDB) play a leading role in the planning and promotion of local tourist attractions in place of the Home Affairs Bureau (HAB), which had made little progress in this regard because it had only accorded the above duty a very low priority due to the many other duties it had to perform. In this regard, he also stressed the need to identify and convert local historical and cultural sites and activities into

tourist attractions with vision in a planned and systematic way. Mr Paul TSE shared his views but considered it not the ripe time to do so, considering that the above reform took some 20 years to make only a little progress. As the first step, focus should be placed on implementing the proposed way forward presently worked out.

54. PSCIT responded that the TIA would be set up with the purpose of regulating the operation of the tourism sector, including travel agents, tourist guides and tour escorts to ensure their services could meet the relevant requirements. As the sole regulatory body of the tourism sector, the TIA would take over the current regulatory functions of the TIC and the Travel Agents Registry, the advisory functions of the Advisory Committee on Travel Agents, and the functions of the Travel Industry Compensation Fund Management Board. CEDB would continue to be responsible for the overall tourism policy, and would continue to promote Hong Kong as a tourist destination through the Hong Kong Tourism Board (HKTB). As such, it might not be appropriate to entrust the TIA with the duty proposed by Mr Albert CHAN above though members' views in this regard would be given due consideration.

55. C for Tourism added that members' views on local tourist attractions were well noted and the Administration would continue to discuss with members in this regard. He pointed out that the Commission and the HKTB had in fact been making various efforts to develop and promote local tourist attractions such as local festivals and natural sceneries that might have an appeal to overseas visitors. Efforts in this regard would be geared up in future.

56. Mr Paul TSE recapitulated his long call for the establishment of a tourism bureau empowered to map out policies on tourism development and regulation of the trade, covering not only travel agents, tourist guides and tour escorts but also hotels and guesthouses; manage and develop tourist attractions; and regulate shops where tour groups went and Mainland inbound tours to tackle problems related to shopping scams and "zero/negative-fare" tours. He enquired how, pending establishment of the proposed tourism bureau, various components of the tourism sector such as the Commission and the HKTB would be reformed to ensure all aspects of the tourism industry as highlighted above, including Mainland inbound tours left unattended and other unforeseen incidents, would be well taken care of.

57. PSCIT responded that regulation of hotels and guesthouses was presently under HAB's purview with licence fees charged to recover the costs. Pointing out that the scale of the proposed reform of the current regulatory framework of the tourism sector was large, he urged members to understand the need to give priority to handling of the more urgent issues covered by the reform, such as regulation of the licensing and operation of travel agents,

tourist guides and tour escorts, and relevant disciplinary systems and measures. The Administration would therefore focus on the legislation and regulatory work associated with the above in the near future. As to other regulatory issues raised which involved a scope too wide for one regulatory framework or just the TIA to cover, the Administration would review how they should be tackled after the establishment of the TIA.

Future role of TIC

58. The Chairman declared that he was the director of a travel agent, and urged the Administration to ensure that the functions of the future TIA would not duplicate with those of the TIC and HKTB. Highlighting the TIC's importance, he also opined that the Administration should as soon as practicable clearly specify what existing functions of the TIC would remain under its purview.

59. PSCIT responded that the Administration would work out with the trade the TIA's positioning and functions, and would prescribe them clearly in the relevant legislation to minimize duplication of functions. As to the TIC's future functions, the Administration was contemplating entrusting to it certain non-regulatory public functions, e.g. co-ordinating the trade in dealing with emergency incidents involving inbound or outbound tours. He assured members that the Administration would aim to clarify the various issues highlighted by members and the best way forward in consultation with the trade within 2012, and that all relevant matters would be set out into the legislation concerned.

60. Mr CHIM Pui-chung considered it unfair and probably illegitimate that TIC had, as he understood, used money from the trade to sponsor political parties, and urged the Administration to rectify the situation. He therefore also considered it undesirable that the Administration was contemplating providing financial support to the TIC for carrying out such non-regulatory public functions as co-ordinating the trade in dealing with emergency incidents involving inbound or outbound tours. He perceived this as a move to please certain political parties, and considered it unfair if there were no similar arrangements in other sectors.

61. PSCIT responded that the TIC would essentially be a trade organization representing the trade. However, with a view to tapping the TIC's expertise and strengths, the Government would enter into discussions with the TIC to explore its involvement in the future regulatory regime, and to examine the possibilities of entrusting to it certain non-regulatory public functions. Co-ordinating the trade in dealing with emergency incidents involving inbound or outbound tours was one such function under contemplation because the TIC's performance in this regard in the past had been very satisfactory. However, only when it was certain that such

arrangement was appropriate would the Administration consider providing financial support to the TIC for the purpose.

62. Mr Paul TSE enquired whether the statutory requirement of the TIC membership for obtaining a travel agent licence would be removed, considering that a statutory licensing system for tourist guides and tour escorts would in future be introduced. He also enquired how membership of the International Air Transport Association (IATA) would be handled, in recognition that IATA was associated with concerns about unfair competition and institutional injustice. PSCIT responded that since the TIC would not be responsible for regulation, the TIC membership would no longer be required for obtaining a travel agent licence.

63. Mr Paul TSE opined that it was in fact not unfair as some people had claimed to pitch the levy to the TIC for every inbound visitor at some \$0.5 and for every outbound tourist at some \$5, considering the much greater contribution inbound visitors could make to Hong Kong, and that the \$5 levy was essentially paid to sustain operation of the Travel Industry Compensation Fund. In this regard, he also highlighted views that it was unfair to waive the charge of HAT, and enquired how relevant fees could be set at an optimal level to give due recognition to the contribution of inbound tours. PSCIT responded that the Administration had taken note of the issues highlighted by Mr TSE as well as other members, and would identify the best way forward in consultation with the trade within 2012.

64. Summing up, the Chairman concluded that members in general supported the proposed way forward, and urged the Administration to take note of the various views expressed by members at this meeting, and to expedite discussion with the trade on the way forward and the establishment of the TIA.

V Breakdown of Ngong Ping 360 ropeway occurring in December 2011 and January 2012

(LC Paper No. CB(1)1111/11-12(07) —Administration's paper on the regulatory regime for the Ngong Ping 360 ropeway and the investigation and follow-up work related to the recent incidents

LC Paper No. CB(1)1111/11-12(08) —Ngong Ping 360 Limited's paper on breakdown of Ngong Ping 360 ropeway occurring in December 2011 and January 2012

LC Paper No. CB(1)1111/11-12(09) —Paper on the incidents of breakdown of Ngong Ping 360 ropeway prepared by the Legislative Council Secretariat (Background brief)

LC Paper No. CB(1)1182/11-12(02) —Letter from Mr Fred LI and Ms Emily LAU dated 24 February 2012

LC Paper No. CB(1)1182/11-12(03) —Presentation materials provided by Ngong Ping 360 Limited)

65. Members noted the letter from Mr Fred LI and Ms Emily LAU on the recent incidents of service interruption of the Ngong Ping 360 ropeway (NP360) occurring in December 2011 and January 2012 (the recent incidents) tabled at the meeting.

66. The Secretary for Commerce and Economic Development (SCED) briefed members on the government regulatory regime for NP360. The Director of Electrical and Mechanical Services (DEMS) reported on the progress made by the Administration in the investigation of the recent incidents and related follow-up work. With the aid of PowerPoint, the Managing Director of NP360 (MD/NP360) briefed members on the recent incidents and the improvements made since the latest suspension on 25 January 2012.

Ropeway safety and reliability

67. Mr KAM Nai-wai questioned MD/NP360's claim that the reliability rate of NP360 during the past three years was 99.7%. He highlighted various incidents including the cabin dislodgement incident in 2007 and the recent incidents, and asked whether the Administration had reviewed whether NP360 was suitable for operation under local conditions, in particular the local climate, whether there was a need to conduct a comprehensive review of its design and if found necessary, replace the whole system to ensure its safety. He further questioned whether the transfer of management of NP360 to MTRCL after the 2007 incident had brought any improvement.

68. SCED responded that the most imminent task at present was to conduct investigations, repairs and tests necessary to enable NP360 to resume service. The Administration attached great importance to the reliability and safety of the cable car system, and would take further necessary actions pending the outcome of the investigations. DEMS added that the Expert Panel appointed to conduct detailed investigation into the 2007 incident had already confirmed that NP360's design was in line with prevailing international standards and practices, such as the technical recommendations of Organizzazione Internazionale Trasporti A Funne (OITAF - International

Organization for Transportation by Rope), the standards of the American National Standards Institute, and the safety requirements in the Code of Practice on the Design, Manufacture and Installation of Aerial Ropeways issued by the Electrical and Mechanical Services Department (EMSD). He further advised that NP360 was designed with due regard to Hong Kong's climate, environment and usage considerations.

69. Mr CHAN Kam-lam asked whether MTRCL had identified any inherent mechanical or management problem since it took over the management and operation of the ropeway. MD/NP360 responded that NP360 was a safe system designed with safety as the most important consideration. More than 10 000 signals were transmitted to the automatic monitoring system every hour during NP360's operation. For safety reasons, the system was designed to suspend the ropeway operation automatically when it received signals indicating that there might be safety risks if the ropeway continued to operate. Occasional service suspension was hence not abnormal. Staying in the cabin during service suspension would be the safest for passengers.

Possible causes of the recent incidents

70. Mr Paul TSE opined that NP360's high incident rate might have been caused by its operation above the sea, so that the corrosive sea winds might have shortened the operating hours of the components concerned. He asked whether the material of the defective bearings was ordinary stainless steel or anti-corrosive alloys, and whether the weight of newly introduced crystal cabins contributed to the recent incidents.

71. MD/NP360 responded that the laboratory test result was pending, and could not confirm whether the material had any implication on the incident. As to the impact of the use of crystal cabins, before introducing them NP360 had already confirmed with the system manufacturer that the cabins' weight would not affect the safety of the system.

Substandard materials or workmanship

72. Mr CHAN Kam-lam pointed out that the life of a roller bearing of NP360 should normally be close to 90 000 operating hours, which was significantly longer than that of the roller bearing in the incident which became faulty after operating only some 20 000 hours. He urged NP360's management and EMSD to inspect in detail all components of NP360 to ascertain if there were any quality or workmanship problems. If so, the Administration should seek compensation from or institute legal actions against the manufacturer(s) concerned. The Chairman shared his views, adding that the above great difference in operating hours of bearings would increase maintenance costs in the long run and in turn the fares of NP360.

73. MD/NP360 responded that the independent expert engaged by NP360 to investigate the recent incidents would, inter alia, examine and analyze this worn bearing to identify the possible cause(s) of the wear. Since the investigation was still underway, there was no conclusion yet on whether the quality of the bearing was to blame but NP360 would follow up on this issue. In response to the Chairman, MD/NP360 further advised that reason(s) for the irregular spalling on the surface of the inner ring of the bullwheel bearing which had caused the 25 January 2012 incident had yet to be identified through laboratory tests, and analysis of the test results by the expert.

74. In reply to Mr CHAN Kam-lam, MD/NP360 confirmed that representatives from both the cable car system manufacturer and the bearing manufacturer of the return bullwheel would join NP360 in the investigation.

75. Mr Paul TSE enquired whether results of the tests on the bullwheel bearing would be available in time to shed light on the component replacement programme and the readiness of NP360 to resume service. In his view, NP360's service should not resume before the above test results were available.

76. In response, MD/NP360 made the following points –

- (a) The test results of the bearings would also be passed on to the expert for analysis. Notwithstanding, the expert had already confirmed that the wear of the bearings would trigger automatic monitoring system to stop the ropeway whereby the safety of NP360 is ensured; and
- (b) The comprehensive annual survey of NP360 would be advanced to ensure that the entire system, including its important components and operation, would be fully inspected and confirmed normal before resuming service.

77. DEMS added that EMSD was currently conducting an independent investigation into the recent incidents to identify the possible causes of the wear of the bullwheel bearing in question. The components concerned had also been sent to an independent laboratory for testing. The findings of the investigation conducted by NP360 and the manufacturer of NP360 would be examined with reference to the Government's own findings. The Administration was determined to find out the real cause(s) of the recent incidents, and to explain the cause(s) to the public before permitting NP360 to resume service.

78. Miss Tanya CHAN shared DEMS's view on the need to identify the causes of the recent incidents. She welcomed the Administration's plan to compare the investigation reports from different parties to identify whether

there were any inherent problems and the actions needed to be taken.

Handling of incidents

79. Mr KAM Nai-wai considered it ironic to provide warm pads in the cable cars as a measure to improve the handling of incidents because this seemed to imply that such incidents would repeat. Mr CHAN Kam-lam also opined that NP360 had failed to properly handle the recent incidents, in particular the 25 January incident, which had led to chaos and made Hong Kong's tourism infrastructure a laughing stock. Mr CHAN questioned why despite the frequency of incidents NP360 was still ill prepared for them, and urged the Administration to be more responsive to incidents. In reply to him on how NP360 could ensure the effect of the planned improvement measures reported in the papers for this item [LC Papers Nos. CB(1)1111/11-12(07) and (08)], MD/NP360 explained that the foremost task at present was to enhance system reliability. After completion of the relevant investigation, which would examine room for improvement in NP360's repair and maintenance regime apart from the quality and installation of system components, the Administration and NP360 would actively follow up the relevant findings.

In-cabin communication

80. Mr WONG Kwok-hing pointed out that affected guests had not been properly assisted in the recent incidents, and considered it inadequate just to enhance communication with guests during incidents by disseminating additional live broadcast information to them at regular intervals to provide them with latest information instead of the existing recorded information. In his view, two-way in-cabin communication like that in lifts should be provided so that affected guests, who might be cold, helpless, frightened, and uncomfortable because of the urgent need to respond to the call of nature or fright-induced illness or panic, could seek assistance and make enquiries as necessary. He opined that the facilities required should be easy to identify given today's technological development and, if NP360 did not agree to making the above improvement, SCED should instruct NP360 to do so instead of allowing NP360 to continue to ignore the important need to assure guests during incidents to suit its own management needs. Mr Albert CHAN and Mr IP Wai-ming expressed similar views.

81. MD/NP360 responded that according to the studies conducted by NP360 on overseas cable car systems and its exchanges with their operators over the past few years, two-way in-cabin communication was not a common feature of cable car systems. NP360 would, however, actively examine the feasibility of Mr WONG Kwok-hing's suggestion above though at present the number of the emergency hotline had already been displayed in every cabin.

82. Mr WONG Kwok-hing pointed out that no call could be successfully made through the hotline during the recent incidents, and asked SCED to comment on his suggestion. SCED responded that Mr WONG's suggestion would be considered. However, even though the suggestion was technically feasible, there was still a need to consider the likelihood of serious jamming of communication lines that would occur when a large number of in-cabin guests attempted to contact the control centre concurrently during an incident. Moreover, at present passengers could already contact NP360 through the hotline as already displayed in every cabin. The Administration would also urge NP360 to ensure that the hotline capacity would be sufficient, and that sufficient staff would be engaged for speedy handling of passengers' enquiries.

83. DEMS added that there would be technical difficulty in implementing Mr WONG Kwok-hing's suggestion because there was only one cable to link up the cable cars. However, the difficulty could be solved by other means, such as by engaging the service of a hotline centre so that the hotline capacity could be increased during an incident for speedy handling of passengers' enquiries. EMSD was already following up with NP360 on exploring the resources required for the latter option. In response to Mr WONG, the Administration agreed to report to the Panel before its next meeting on when the necessary facilities for effecting two-way in-cabin communication would be made available.

84. Mr Albert CHAN considered procrastination in the matter unacceptable as that would aggravate the problem leading to grave public discontent. Mr Paul TSE expressed doubt about whether the provision of two-way in-cabin communication facilities in every cable car would be more cost-effective than improving the capacity of NP360's hotline service centre to serve a similar purpose. MD/NP360 responded that the technical problem involved in providing two-way in-cabin communication might be overcome by the use of wireless technology or other technologies. NP360 was assessing the feasibility of having over a hundred cabins adopting such technology.

Alerts for tourist guides

85. Mr IP Wai-ming noted that the Administration planned to improve the incident notification arrangements by inviting travel agents to subscribe to the Real Simple Syndication (RSS) Feed service of NP360, but he considered that tourist guides and tour escorts might be too busy to check RSS messages. The relevant trade unions were keen to ensure timely notification of incidents to enable them to change the itinerary early, instead of being turned away upon arrival. He therefore enquired whether NP360 could develop a system so that tourist guides and tour escorts registered with the system would automatically receive mobile-phone alerts of incidents and contingency

arrangements.

86. MD/NP360 responded that since travel agents would pre-book seats for their tour groups, there was already an arrangement that if the tour groups concerned were already at the Tung Chung Terminal, NP360 would take the initiative to notify the tourist guides and tour escorts concerned of the situation and ascertain the assistance they required through telephone calls or Short Message Service. If the tour groups concerned had not yet arrived, NP360 would instead notify their travel agents to alert them to the need to change the itinerary. The existing arrangements were already similar to those proposed by Mr IP Wai-ming above. Notwithstanding, MD/NP360 undertook to arrange briefings for trade unions of tourist guides and tour escorts on the above existing arrangements after the meeting.

Rescue and compensation arrangements

87. Mr IP Wai-ming enquired about the contingency measures that would be taken should any affected passenger have a sudden illness, such as a heart-attack. MD/NP360 responded that in accordance with the established contingency response mechanism, once it was anticipated that an incident would span a certain period, NP360 would notify the Fire Services Department (FSD), which would then send fire services personnel and a fire appliance to road-accessible terminals nearby, such as the Tung Chung Terminal, the Ngong Ping Terminal and the Airport Island Angle Station, for actions as necessary. Should there be the above described situation, NP360 would seek FSD's assistance.

88. Mr IP Wai-ming opined that NP360 should provide more details on the above rescue arrangements, pointing out that an affected passenger who needed urgent help might be trapped in a cable car not accessible by road. He also enquired about details on co-ordination among different relevant Government departments during an incident.

89. SCED responded that even during service suspension, rescue carriers could still be moved to the rescues' cabins to transfer the rescues to the rescue carriers. Under the existing rescue mechanism, two different modes of rescue by either FSD or the Government Flying Service would be conducted, depending on whether the height of the passenger from the ground exceeded 60 metres or not. At Mr IP Wai-ming's request, the Administration agreed to provide further details on the rescue plan for rescuing in-cabin guests, in particular details on the relevant reporting mechanism, and the co-ordination among NP360 and relevant Government departments.

90. Mr Paul TSE enquired about the relevant compensation arrangements, in particular those for tenants of the Ngong Ping Village whose business

suffered badly because of NP360's service suspension, and asked whether rent concessions would be offered as in the past. MD/NP360 responded that tenants of the Village were regarded as NP360's long-term business partners. During service suspension NP360 would disburse special allowances to them to offset their recurrent operation cost. Promotional offers had also been introduced to attract visitors to the Village during service suspension. For example, visitors spending HK\$60 or more at the Village could redeem, free of charge, an MTR single journey ticket for travelling from Tung Chung to MTR lines. Visitors who joined arranged tours to the Village through tour operators or tour guides would also be offered free admission to two multimedia attractions, namely "Walking with Buddha" and "Monkey's Tale Theatre".

Other views and concerns

91. Miss Tanya CHAN considered it undesirable that advertisements on NP360 had not been removed even though its service would be suspended for a long period, and urged NP360 to remove them or post notices of service suspension. MD/NP360 responded that NP360 would take actions as proposed.

92. Miss Tanya CHAN enquired whether the comprehensive inspection of NP360 would be increased from once every year to more frequent. MD/NP360 responded that the independent expert investigating into the recent incidents would also review NP360's existing repair and maintenance regime to see how it could be strengthened to enhance system reliability.

93. The Chairman enquired about the timetable of NP360's plan to strengthen its repair and maintenance regime and to rewrite the relevant manual. MD/NP360 responded that since various experts were involved, NP360 could only aim to complete the investigation into the recent incidents as soon as practicable. As to the maintenance regime, NP360 would continue to adopt the regime as advised by NP360's manufacturer as the basis, and would strengthen it as advised by the independent expert engaged to look at the regime in the light of the cause(s) of the recent incidents when the above investigation completed. Meanwhile, NP360 would gear up daily patrol and inspection of NP360.

The way forward

94. Mr Albert CHAN recalled that he had opposed to the construction of NP360 from day one on the grounds of the likely waste of public money, the wrong location selected, and its visual and ecological impacts on Lantau Island. He stressed the need to include a comprehensive examination of NP360's technical soundness in the investigation into the recent incidents because the high frequency of incidents involving NP360 had given rise to

concerns about the use of substandard materials for its construction, and slack quality surveys as evidenced by the short operating hours of the bearings concerned, and the need to replace the sheave lining when there was only one-fourth wear instead of until there was one-third wear. He further opined that this agenda item should be revisited when the investigation report was ready to shed light on whether substandard workmanship or materials was to blame for the frequent incidents, and on the actions that should be taken to hold the relevant parties responsible. Meanwhile, the most urgent thing was to rectify the above substandard problem by replacing all components concerned, and improving certain facilities as necessary to enable early resumption of service. Mr IP Wai-ming also urged the Administration to seriously handle problems surrounding NP360 given that NP360 was a major tourist attraction of Hong Kong, and its frequent incidents would tarnish Hong Kong's reputation as a tourist destination. At the Panel's request, the Administration and NP360 agreed to provide as soon as possible for discussion at another Panel meeting the investigation report of the recent incidents, covering the relevant causes and recommendations on remedial measures.

95. Summing up, the Chairman pointed out that members in general felt that NP360 was a very good tourist attraction but the recent incidents had caused tourists and the public grave concern. He urged the Administration and NP360 to take members' views on improvement into serious consideration to ensure NP360 could operate smoothly in future.

(Post-meeting note: The details requested above were issued vide LC Papers Nos. CB(1)1388/11-12, CB(1)1518/11-12 and CB(1)1600/11-12(03) on 23 March, 10 April and 17 April 2012 respectively. The item was also revisited at the Panel meeting on 23 April 2012.)

VI Any other business

96. There being no other business, the meeting ended at 12:50 pm.