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17 January 2012

Fax No. 2978 7569

Mr Jeffrey LAM Kin-fung
The Chairman, Panel on Economic Development
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Lam,

Legislative Council – Panel on Economic Development
Follow-up to meeting on 23 and 30 December 2011
“Annual tariff reviews with the two power companies”

Thank you for your letter of 12 January asking for more comprehensive information on the 2012 tariff review.

Tariff adjustment has great impact on people’s livelihood and local business operation. The Environment Bureau agrees that the two power companies should increase the transparency of their tariff adjustment to assist the community to understand the rationale for the increase. In dealing with the 2012 tariff adjustment at the end of last year, the Administration had different views with the power companies on the proposed tariff increase. The Environment Bureau laid out the rationales and analyses through the Economic Development Panel (the Panel); and at the same time conducted thorough discussion on the 2012 tariff adjustment based on supplementary information provided by the two power companies. Since part of the information is commercially sensitive, the two power companies submitted the information to Panel Members and other Members attending the meeting for reference in confidential manner.

Regarding your letter asking for more comprehensive information, we have followed up with the two power companies. According

to our understanding, the two power companies will provide the following information to Legislative Council through the Panel -

Regarding 2012 Tariff Review :

- Details of and justifications for the tariff proposal (including proposed increase in Basic Tariff and Fuel Clause Charge adjustment) submitted to the Administration by the two power companies before 13 December last year, including :

Basic Tariff :

- Increase in Average Net Fixed Assets ;
 - Increase in operating expenses ;
 - Change in electricity sales ;
 - Increase/decrease in Tariff Stabilization Fund balance ;
- and related justifications.

Fuel Clause Charge :

- Increase in fuel costs;
- Rectification for the over/under-recovery of fuel costs in 2011;
- Increase in the Fuel Clause Recovery Account's deficit balance to mitigate tariff increase etc.

- Details of and justifications for the final tariff proposal (including increase in Basic Tariff and Fuel Clause Charge adjustment), with items same as the above.
- The amount of Average Net Fixed Assets in 2011 and 2012 and the reasons for the increase, the detailed breakdown of operating expenses in 2011 and 2012, etc.

Regarding Five-year Development Plan :

- Total forecast capital expenditure in the Five-Year Development Plan period, and the capital expenditure forecast by categories (e.g. emission reduction projects, post-commissioning projects, other power generation systems, transmission & distribution system and customer & corporate services development) in each year;

- Actual capital expenditure in each year in the Five-year Development Plan period (total and breakdown by the same categories) ;
- Change to the approved total capital expenditure within the Five-Year Development Plan period and the tariff implication (if applicable) ; and
- The approved Basic Tariff and the forecast Fuel Clause Charge and Net Tariff by years within the Development Plan period; and their comparison with the actual tariffs in relevant year.

We understand that, on the premise of giving due regard to the commercial sensitivity of business operations and stock trading, the two power companies are willing to disclose to Legislative Council Members, through the Economic Development Panel, information which is regarded as highly commercially sensitive by the companies, to assist members to understand the tariff adjustment this year.

As indicated by the two power companies, the related information involves commercially sensitive information of the two power companies. Apart from business operation and operating data, it also involves forecast of electricity supply and energy market. The disclosure of information will have great and regulatory impact on future commercial negotiation and tendering by the companies in Hong Kong and other areas, market trading according to listing rules, disclosure of information and insider trading. The two power companies are also worried that disclosure of certain information may affect the companies' competitiveness and bargaining power in the market. It will adversely affect cost control, and will ultimately have an impact on the cost of electricity supply. In view of the above, the two companies are studying the detailed arrangement on the disclosure of information, e.g. in which format to disclose which kind of information, and shall further discuss these with Panel Members.

Yours sincerely,

(Miss Vivian Lau)
for Secretary for the Environment