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6 January 2012

By Fax (fax no. : 2978 7569)

Mr Derek Lo
Clerk to Panel
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Lo,

**Panel on Economic Development
Follow-up to meeting on 23 December 2011**

“Annual tariff reviews with the two power companies”

I refer to your letter of 4 January 2012 requesting further information on the 2012 tariff reviews.

The Administration and the two power companies have been providing Panel Members with a wide range of financial information relevant to the 2012 tariff review. This, we believe, has facilitated a detailed scrutiny and close examination of the tariff proposals by the Panel.

In addition to the power point presentations on 13 December 2011, in response to Members' requests, CLP Power Hong Kong Limited (CLP) provided on 21 December to all Members a two-page summary to clarify various issues raised during discussion on the tariff review. The two power companies further provided respectively, in the form of a confidential document exclusively for Members' reference on 23 December 2011, additional financial information, including changes in operational expenses, costs of fuels used for electricity generation, Fuel Clause Recovery Account movements, reasons for the proposed tariff increase, etc. To facilitate Members' understanding of the issues at stake, the Administration also provided in an information note on our views and comments on the major content of the power companies' submissions.

In response to concerns from the LegCo and the community, CLP has finally responded to the concerns on 30 December by revising the tariff increase. In particular, CLP has reduced the increase in operating costs upon review. It has also taken out its capital investment in preparatory and early stage of works for increasing generation capacity, which are premature and have not been included in CLP's current Development Plan or are yet to be fully vetted by the Administration. Its projected TSF balance has been reduced from the original forecast of \$300 million to about \$100 million, which is the lowest level ever recorded under the current Scheme of Control Agreement. Together these measures have contained the increase in Basic Tariff in 2012 to 4.2 cents/kWh, down from 5 cents/kWh originally. CLP has also handed out a 3.3 cents/kWh special rebate on rent and rates refund with a view to relieving the tariff increase pressure. As a result, CLP has reduced its Net Tariff increase to 4.9%, and the Basic Tariff increase is lowered to 5.3%. These measures have addressed concerns and queries raised by the Administration at Panel meetings held on 13 and 23 December 2011.

On the current five-year Development Plan of the two power companies, we informed Members immediately upon approval in 2008 all the essential features, which include costs of capital projects for CLP and Hongkong Electric Company Limited (HEC) over the Development Plan period, major categories of such capital projects, forecast growth in local sales, projected average annual increase in Basic Tariff, etc. We would continue to work closely with the Panel to enhance information transparency to facilitate Panel discussion on the subject.

Yours sincerely,



(Ms Vyora Yau)
for Secretary for the Environment