

立法會
Legislative Council

LC Paper No. CB(1)752/13-14
(These minutes have been seen
by the Administration)

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Panel on Economic Development

Minutes of meeting
held on Monday, 25 November 2013, at 10:30 am
in Conference Room 1 of the Legislative Council Complex

- Members present** : Hon James TIEN Pei-chun, GBS, JP (Chairman)
Hon Jeffrey LAM Kin-fung, GBS, JP (Deputy Chairman)
Hon CHAN Kam-lam, SBS, JP
Hon WONG Ting-kwong, SBS, JP
Dr Hon LAM Tai-fai, SBS, JP
Dr Hon LEUNG Ka-lau
Hon Paul TSE Wai-chun, JP
Hon Albert CHAN Wai-yip
Hon Steven HO Chun-yin
Hon Frankie YICK Chi-ming
Hon Charles Peter MOK
Hon CHAN Han-pan
Hon Kenneth LEUNG
Hon Dennis KWOK
Hon Christopher CHEUNG Wah-fung, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon SIN Chung-kai, SBS, JP
Dr Hon Elizabeth QUAT, JP
Hon TANG Ka-piu
Hon CHUNG Kwok-pan
- Members absent** : Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon YIU Si-wing

Members attending : Hon James TO Kun-sun
Hon WONG Kwok-hing, BBS, MH
Hon Cyd HO Sau-lan
Hon Michael TIEN Puk-sun, BBS, JP
Ir Dr Hon LO Wai-kwok, BBS, MH, JP

Public officers attending : Agenda Item IV

Professor Anthony CHEUNG
Secretary for Transport and Housing
Transport and Housing Bureau

Ms Julina CHAN Woon-yee
Deputy Secretary (Transport) 5
Transport and Housing Bureau

Mr Francis LIU Hon-por
Director of Marine
Marine Department

Mr TUNG Hon-ming
Deputy Director of Marine
Marine Department

Ms Shirley LAM Shuet-lai
Deputy Director of Marine (Special Duties)
Marine Department

Agenda Item V

Ms Julina CHAN Woon-yee
Deputy Secretary (Transport) 5
Transport and Housing Bureau

Ms Jenny CHAN Wai-man
Principal Assistant Secretary for Transport &
Housing (Transport) 10

Mr Francis LIU Hon-por
Director of Marine
Marine Department

Mr TUNG Hon-ming
Deputy Director of Marine
Marine Department

Ms Shirley LAM Shuet-lai
Deputy Director of Marine (Special Duties)
Marine Department

Miss Helena CHAN Yuk-chun
Senior Principal Executive Officer (Special Duties)
Marine Department

Mr CHENG Yeung-ming
Chief, Marine Accident Investigation & Shipping
Security Policy
Marine Department

Mr Gilbert MO
Deputy Law Draftsman (Bilingual Drafting &
Administration)
Department of Justice

Agenda Item VI

Mr WONG Kam-sing
Secretary for the Environment

Miss Vivian LAU
Deputy Secretary for the Environment

Mr Donald NG
Principal Assistant Secretary for the Environment
(Electricity Reviews)

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

Attendance by invitation

: Agenda item VI

CLP Power Hong Kong Ltd.

Mr Richard LANCASTER
Chief Executive Officer – CLP Holdings

Mr Paul POON
Managing Director

Ms Quince CHONG
Chief Corporate Development Officer

Mr T K CHIANG
Planning & Development Director

The Hongkong Electric Co., Ltd.

Mr C T WAN
Managing Director

Mr CHAN Loi-shun
Executive Director

Mr T C YEE
General Manager (Corporate Development)

Ms Mimi YEUNG
General Manager (Public Affairs)

Mr K M WONG
Group Manager, Finance & Accounting

Clerk in attendance :

Mr Derek LO
Chief Council Secretary (1)5

Staff in attendance :

Mr Daniel SIN
Senior Council Secretary (1)7

Ms Michelle NIEN
Legislative Assistant (1)5

I Confirmation of minutes of meeting

(LC Paper No. CB(1)324/13-14 —Minutes of meeting held on 28 October 2013)

1. The minutes of the meeting held on 28 October 2013 were confirmed.

II Information paper issued since last meeting

(LC Paper No. CB(1)157/13-14(01) —Submission from Friends of the Earth (HK) and Clean Air Network

LC Paper No. CB(1)217/13-14(01) —Administration's paper on tables and graphs showing the import and retail prices of major oil products from October 2011 to September 2013

LC Paper No. CB(1)332/13-14(01) —Letter from Hon Claudia MO on recent incidents of death of marine species in the Ocean Park

LC Paper No. CB(1)333/13-14(01) —Letter from Hon SIN Chung-kai requesting for information on the two power companies

LC Paper No. CB(1)374/13-14(01) —Administration's paper on updates on the Kai Tak Cruise Terminal)

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

III Items for discussion at the next meeting

(LC Paper No. CB(1)344/13-14(01) —List of outstanding items for discussion

LC Paper No. CB(1)344/13-14(02) —List of follow-up actions)

3. Members agreed that the following items should be discussed at the meeting scheduled for 10 December 2013 –

- (a) creation of two supernumerary posts for the review of the future regulatory framework for the electricity market; and

- (b) 2014-2018 Development Plans and 2014 Tariff Review of the two power companies.

IV Update on follow-up actions arising from the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012

(LC Paper No. CB(1)344/13-14(03) —Administration's paper on update on follow-up actions arising from the Report of the Commission of inquiry into the Collision of Vessels near Lamma Island on 1 October 2012

LC Paper No. CB(1)344/13-14(04) —Paper on follow-up actions arising from the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012 prepared by the Legislative Council Secretariat (updated background brief))

4. Secretary for Transport and Housing ("STH") introduced the paper which outlined the latest progress in respect of the work of the Steering Committee on Systemic Reform of the Marine Department, measures implemented by the Marine Department ("MD") for enhancing marine safety and the safety of passenger vessels, and the internal investigation being carried out by the Transport and Housing Bureau ("THB") for identifying any possible responsibilities of MD officers for problems as identified in the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island ("the CoI Report"), etc.

5. The Chairman instructed that the speaking time for members on this item should be four minutes, including the Administration's response.

Provision of lifejackets and other safety measures on vessels

6. Mr WONG Kwok-hing asked when all passenger vessels would begin to carry enough child lifejackets for every child on board. STH advised that the Administration was discussing with the maritime trade on the arrangements. Director of Marine ("D of M") said that all local passenger-carrying vessels were able to comply with existing statutory requirements of providing adult lifejackets for every adult and child lifejackets for 5% of children the vessel was certified to carry.

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7. Mr WONG Kwok-hing said that it was not acceptable that the Administration had not yet enforced the requirement of providing child lifejackets for all children on board passenger-carrying vessels after more than one year from the vessel collision incident in 2012. He expressed disappointment at MD's poor management.

8. Mr CHUNG Kwok-pan queried how the Administration would determine the number and size of child lifejackets that should be carried on board vessels, as lifejackets that fit older children might not be suitable for smaller children. He also asked where the lifejackets should be stored on board to ensure easy and quick retrieval by passengers in case of marine incidents.

9. Deputy D of Marine said that at present child lifejackets were designed to be used by children who weighted between 14 and 42 kg or with height between 100 cm and 155 cm. These child lifejackets should preferably be stored underneath passenger seats or stowed in storage areas close to passenger seats provided that sufficient and clear signage and safety instructions were displayed.

10. Mr CHAN Kam-lam asked how the Administration would address the aging problems of seamen working on local vessels, who were low paid and having low skill level. He also asked how the Administration would strike a balance between enhancing maritime safety within Hong Kong waters and avoiding escalation of operating costs in the trade.

11. STH responded that the Administration's priority was to safeguard maritime safety, but full co-operation from the trade would be necessary for any safety improvement measure to be effective. The Administration was aware that some of the proposed measures might have cost implications for vessel operators. The Administration would continue to discuss with the trade and would consider providing appropriate support and assistance where necessary to facilitate compliance with improved maritime safety measures by vessel operators.

12. Mr TANG Ka-piu asked if the safety improvement measures identified on board could be implemented in outlying island ferries whose operations were subsidized by the Government. He also enquired about the progress of the setting up of the Marine Traffic Accident Victim Assistance Fund.

13. STH said that full co-operation from the sector was important and further discussion with the trade was underway to overcome some of the practical difficulties involved. D of M supplemented that the Administration would explore means to expedite implementation of the safety measures on board outlying island ferries.

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14. As regards the setting up of the Marine Traffic Accident Victims Assistance Fund, D of M said that a consultant had been engaged to explore possible options modelling on the Traffic Accident Victims Assistance Scheme being administered by the Social Welfare Department. It was expected that the consultancy study would be completed towards the end of 2013.

15. Mr Frankie YICK declared that he was a director of the "Star" Ferry Co., Ltd. He commented that MD was chronically short of professional staff, especially ship inspectors. As a result, many ferries were left idle awaiting inspection. He cautioned that the proposed safety measures should be implemented only with adequate staff in MD.

16. Mr Frankie YICK commented that the trade considered that installation of the Automatic Identification System ("AIS"), Radar and Very High Frequency ("VHF") radio would unlikely improve significantly the navigational safety of local vessels. Many vessel operators might encounter financial difficulties meeting the cost of installation. Mr YICK said that the sector would support the Administration's proposed measures if government subsidies would be provided.

17. D of M assured members that the installation of AIS, Radar and VHF radio systems would help minimize vessel collisions and enhance navigational safety in Hong Kong waters. STH said that the Administration would consider providing appropriate assistance for vessel operators to install the equipment if they had genuine operational and financial difficulties. D of M supplemented that the Administration planned to consult the Local Vessels Advisory Committee on implementation details in end 2013 or early 2014. Subject to the support of the trade, the Administration would proceed with the necessary preparation of the legislative proposals in 2014.

Criminal investigation arising from the vessel collision incident

18. Mr WONG Kwok-hing asked if any suspected criminal cases arising from the internal investigation of MD staff in connection with the follow-up on the CoI Report had been identified and referred to the law enforcement agency for actions. Mr James TO raised a similar query.

19. STH said that it was not appropriate to reveal at this stage whether any cases involving MD staff which arose from the internal investigation had been referred to the Police for criminal investigation in order not to affect the latter's possible work. STH stressed that if, during the internal investigation, suspected criminal element was identified, the internal investigation team in THB would refer the relevant matter to the law enforcement agency immediately for action. THB would not wait until the entire internal investigation had completed to make such referral.

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20. Dr Fernando CHEUNG expressed disappointment that the Administration was unwilling to disclose whether any case from the internal investigation that might involve criminal liability had been referred to the Police for follow-up. He said that the public had the right to know whether any MD staff members found to be responsible for the marine tragedy had been brought to justice.

21. STH responded that the Police had already indicated publicly that it was conducting criminal investigation into the vessel collision incident. Internal disciplinary proceeding against any MD staff member would be initiated, as warranted, following the conclusion of the criminal investigation in accordance with established civil service practice. It was not appropriate to divulge any information regarding the Police's investigation.

22. Mr CHAN Han-pan commented that maritime investigation reports were often released long after the statutory deadline for initiating legal actions for damages and liability. He asked if the Administration would likewise delay the release of criminal investigation findings of the vessel collision incident to avoid the legal actions initiated by the victims' families.

23. STH responded that the CoI Report had provided detailed account of the collision incident, upon which civil actions could be initiated by the interested party as necessary. As at 21 November 2013, the Legal Aid Department had approved 14 applications for assistance for civil litigation related to the vessel collision incident.

24. As regards the internal investigation into possible misconduct of MD staff members, STH said that the Administration had established the Investigation Team in June 2013 and it had taken some time for the team to collect and consider the evidence and relevant records. Time was also needed for thorough interviews of staff concerned. STH expected that the internal investigation report would be submitted to him by the first quarter of 2014, and the Administration would consider the way forward in the light of the findings.

25. Mr TANG Ka-piu noted that if the process of internal investigation revealed that a crime had been committed, the Administration would refer such case to the law enforcement agencies immediately for actions. He asked how and who within the Administration would determine whether a case should be referred to the law enforcement agencies for follow-up.

26. STH responded that the Investigation Team was under the supervision of the Permanent Secretary for Transport and Housing (Transport) and led by a Principal Executive Officer. The Investigation Team could refer cases that they suspected of involving crime to the law enforcement agencies for follow-up. Prior approval from the Bureau Secretary was not necessary.

27. Mr James TO asked whether the Police's criminal investigation into the vessels collision incident had been completed, and, if not, the reason why it took so long. STH said that the Police investigation was still in progress, but he was not in a position to comment on the time taken to conduct the investigation.

28. The Chairman concluded the discussion of the item and said that many of the measures highlighted for improvement were still outstanding and needed to be followed up by the Panel. STH said further report on progress would be made to the Panel in February 2014.

V Staffing proposal on taking forward marine-related legislative amendments and systemic reform of Marine Department to enhance maritime safety

(LC Paper No. CB(1)344/13-14(05) —Administration's paper on staffing proposal on taking forward marine-related legislative amendments and systemic reform of Marine Department to enhance maritime safety)

29. Deputy Secretary for Transport and Housing (Transport)5 ("DSTH(T)5") introduced the Paper which proposed the creation of four supernumerary directorate posts from February 2014 to 31 May 2016 to take forward marine-related legislative amendments and systemic reform of MD. Three of the posts would be created in MD to lead the Task Force on Reform in MD with a view to enhancing maritime safety and strengthening the internal governance of the department, and one would be in the Law Drafting Division of the Department of Justice to head a legal team for giving support to THB and MD in taking forward marine-related legislative amendments.

30. Dr Fernando CHEUNG objected to the proposal. He said that it was unreasonable to reward MD's debacle over the vessel collision incident with additional new posts. He said that the directorate should be responsible for the incident and should have been undertaking the remedial work. If additional staffing resources were required to enhance maritime safety in Hong Kong waters, Dr CHEUNG said that more frontline posts should instead be created.

31. DSTH(T)5 said that the staffing proposal should not be regarded as a reward to MD. She said that the existing directorate was fully occupied with existing workload and the proposed supernumerary posts were necessary to enable MD to carry out systemic reform measures. As regards frontline manpower situation, DSTH(T)5 added that the Administration had regularly reviewed the

staffing situation and would improve frontline manpower through established procedure.

32. Mr TANG Ka-piu said that the Administration was reasonable as the proposed posts could help improve the operation of MD. Noting that some of the requested posts would be responsible for formulating legislation to give effect to relevant international conventions in Hong Kong, Mr TANG asked whether there were international conventions to which Hong Kong had become a party, but no corresponding local legislation had yet been enacted to implement those conventions. If so, Mr TANG asked which of those conventions were related to maritime safety and whether the vessel collision incident near Lamma Island could have been avoided had those legislation been introduced.

33. DSTH(T)5 advised that concerned international maritime conventions were mainly applicable to ocean-going vessels. There was however other legislation governing the operation of locally licensed vessels. Local legislation on Maritime Labour Convention, 2006 which entered into force globally in August 2013 was being drafted. Chief, Marine Accident Investigation and Shipping Security Policy supplemented that at present, the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which entered into force internationally in 2008, had not been given effect through local legislation in Hong Kong.

34. Mr WONG Kwok-hing considered that the Administration's staffing proposals were worth supporting as he commented that MD needed a complete overhaul which could not be achieved by the existing already heavily overloaded directorate.

35. Mr WONG Kwok-hing asked the Administration to undertake to reform MD completely with the creation of the proposed posts. He also requested the Administration to provide interim progress reports on the implementation of the reform measures. DSTH(T)5 said that STH was personally chairing the Steering Committee on Systemic Reform of MD. The Secretary had earlier undertaken to report regularly to members on the implementation of reform and other improvement measures.

36. D of M said that the proposed posts, if approved and created, could help speed up the implementation of various improvement measures. Deputy Law Draftsman (Bilingual Drafting and Administration) said that, as the representative of the Department of Justice, he was confident that the required legislation work could be completed by June 2016 if the staffing proposal in respect of the Department of Justice was approved.

37. Mr Frankie YICK declared that he was a director of the "Star" Ferry Co., Ltd. He supported the Administration's proposal in principle, as MD would need

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to carry out many follow-up tasks arising from the report of the Commission of Inquiry. Mr YICK said that MD had chronically been understaffed, especially in the ship inspection stream. He said that additional resources should be provided to improve the efficiency of the Department.

38. D of M said that resources were being sought to strengthen staffing support in the Department. Meanwhile, D of M noted Mr YICK's concern and said that in the meantime, ship inspection services could be enhanced through internal deployment of resources.

39. Mr SIN Chung-kai said that Members belonging to the Democratic Party had reservation on the staffing proposal.

40. The Chairman concluded that apart from a few members, the Panel was generally supportive of the Administration's staffing proposal, and agreed that the item should be submitted to the Establishment Subcommittee for consideration.

VI Scheme of Control Agreements with the two power companies – Interim Review in 2013

(LC Paper No. CB(1)344/13-14(06) —Administration's paper on Scheme of Control Agreements with the power companies – interim review in 2013

LC Paper No. CB(1)344/13-14(07) —Paper on Scheme of Control Agreements with the power companies – interim review in 2013 prepared by the Legislative Council Secretariat (background brief)

41. Secretary for the Environment ("SEN"), Managing Director, CLP Power Hong Kong Ltd. ("MD/CLP") and Managing Director, The Hongkong Electric Co. Ltd. ("MD/HEC") gave introductory remarks.

[*Post-meeting note:* The speaking notes of SEN, MD/CLP and MD/HEC were issued to members vide LC Paper Nos. CB(1)419/13-14(02), CB(1)419/13-14(03) and CB(1)419/13-14(04), respectively on 27 November 2013.]

General views

42. Dr Elizabeth QUAT said that the public was disappointed with the Administration's failure to reach agreement with the two power companies to

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reduce the Permitted Rate of Return. The public would continue to bear the burden of increasing electricity tariff. She suggested that the Administration should introduce appropriate measures to attenuate the rate of tariff increase.

43. Noting that the current Scheme of Control Agreements ("SCAs") would expire in 2018, Mr TANG Ka-piu asked when the new framework of SCAs would be announced. SEN said that as stipulated in SCAs, the Government would have to discuss with the power companies any major changes to the regulatory framework for the electricity market by the end of 2015.

44. Mr SIN Chung-kai criticized the Administration for achieving nothing significant in the interim review of SCAs as it failed to reduce the Permitted Rate of Return of the two power companies, or tighten the mechanism for using excess generating capacity. Mr SIN said that the tenure of the current Government would expire in 2017 before the new SCAs would commence in 2018. He asked if the Administration was confident in making concrete progress by 2017. SEN said that discussion with the power companies would shortly commence on key issues such as fuel mix for electricity generation and SCA review.

45. Dr Fernando CHEUNG criticized the Administration for failing to perform its gate-keeping role in restraining the two power companies from maximizing their return at the expense of the public. He criticized the Administration for not being able to reach agreement with the power companies to reduce the Permitted Rate of Return.

46. Dr Fernando CHEUNG also criticized the two power companies for refusing to rebate customers despite their huge profits. He commented that the Energy Efficiency Fund ("EEF") was now financed by the incentive payments from the Government which were public money, rather than from the power companies' own profits. Moreover, the balances of the Tariff Stabilization Funds were insufficient to be effective in reducing the pressure of tariff increase. By allowing the power companies to extend the service life of some of the assets, the Administration would experience more difficulties in trying to open up the power grids in future.

47. Mr Albert CHAN commented that the improvements to be made to SCAs in the 2013 interim review that the Administration had agreed with the two power companies were insignificant at best. The two agreements were not equitable to customers and the Administration did not seem to have any major change in the direction of future energy policy.

Energy Efficiency Fund

48. Noting that the two power companies might inject about \$100 million from

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their financial incentive payment into EEF in the next five years, Dr QUAT questioned whether the target injection could be achieved. She suggested that the Administration should adopt some green groups' proposal that the power companies should inject into EEF any extra return they gained from various energy efficiency measures.

49. Dr Elizabeth QUAT said that the Administration and the two power companies should provide more information about the operation of EEF and whether non-commercial buildings were eligible for subsidies under the Fund for installing energy saving appliances. Dr QUAT also suggested that the Administration and the two power companies should conduct wider public consultation and brief the Panel of the outcome before implementation of the subsidy scheme.

50. MD/CLP said that CLP was confident in contributing around \$70 million of their financial incentive payment (out of shareholders' earnings) into EEF in the next five years. MD/HEC pointed out that in the past five years, HEC had reduced its Basic Tariff twice, frozen it in one year and only increased it once. To conclude, HEC's Basic Tariff had increased by 0.2 cent/kWh against an inflation of 13% over that period.

51. Mr WONG Kwok-hing commented that owners or residents of single residential blocks could not benefit from EEF as there was often no owners' corporation in these buildings. Mr WONG suggested that HEC and CLP should install the energy efficiency facilities or appliances directly for owners or occupants of single residential blocks.

52. MD/CLP said that CLP intended to collaborate with local non-governmental organizations to help install energy saving appliances in targeted residential blocks using EEF. Details were being developed, and it was expected that applications could be invited in 2014. MD/HEC said that the company would explore implementation details with the Administration and relevant green groups.

53. Dr LO Wai-kwok expressed support for the setting up of EEF. He said that the Administration and the two power companies should provide technical support to applicants, if appropriate, to enable them to achieve the various energy saving objectives.

Cost of natural gas and electricity tariff

54. Mr TANG Ka-piu said that the Administration had allowed the two power companies to justify tariff increase by the expected rise in the cost of natural gas. However, it had often turned out that they over-estimated the natural gas price.

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Mr TANG enquired, if by 2015, 40% of the fuel for electricity generation was to be natural gas, how the electricity tariff would be affected. He also queried whether the tariff could be lowered by reducing electricity generation.

55. Deputy Secretary for the Environment ("DSEN") said that impact on electricity tariff adjustment due to fuel cost (including cost of natural gas) fluctuation would be covered in the two power companies' Five-Year Development Plans being examined by the Administration. DSEN explained that whether the two power companies could reduce electricity generation would depend on whether the public could reduce electricity consumption and whether the increase in the capacity of electricity generation units could be reduced. While the capacity of power plants was fixed upon their commissioning, the reserve generation capacity of the two power companies was maintained generally at about 30% in the last couple of years, which was broadly in line with the international norm.

Sourcing lower cost fuel and sale of electricity to the Mainland

56. Mr CHAN Kam-lam noted that there were media reports about CLP selling electricity generated from coal to the Mainland while charging Hong Kong customers a higher tariff for electricity generated from higher cost fuels. Mr CHAN also quoted other media reports which suggested that the China National Petroleum Corporation ("PetroChina") was exploring a new natural gas field which could be a source of natural gas for Hong Kong. Mr CHAN asked if CLP would source lower cost fuel to generate electricity for Hong Kong customers.

57. Chief Executive Officer, CLP Holdings ("CEO/CLP Holdings") responded that CLP had signed a 20-year contract with the China National Offshore Oil Corporation ("CNOOC") in 1992 for supply of natural gas to Hong Kong starting from 1996. However, within five years after the commencement of the contract period, the natural gas reserve in Yacheng was estimated to be less than originally expected. CLP had started to explore other sources of natural gas supply as early as 2001.

58. CEO/CLP Holdings added that in 2008, the Government had signed a memorandum of understanding on energy co-operation with the Mainland and secured new supply of natural gas from the Mainland. In this connection, CLP had immediately began to negotiate with PetroChina for offtaking gas from China's Second West-East Natural Gas Pipeline ("WEPII") starting from 2013, but the price of natural gas would be higher than that from Yacheng. CLP was also in discussion with CNOOC to explore other sources of gas supply, but this would take some years before such gas would be available. Meanwhile, CLP had also negotiated with CNOOC on an interim arrangement for a short term supply of natural gas from another gas field in Yacheng to moderate the impact on the overall

fuel costs.

59. Dr Fernando CHEUNG said that the current SCAs had, in effect, encouraged the power companies to accumulate assets indiscriminately to the extent that CLP had so much reserve capacity that it could sell excess electricity to the Mainland. The assets were fully paid for by Hong Kong customers to generate the excess electricity, but CLP only returned 80% of the profit it earned to offset its operating cost in generating electricity for local customers. Meanwhile, CLP claimed the full amount of permitted return from the reserve capacity.

60. DSEN said that under the existing arrangement, CLP could sell to the Mainland electricity generated from its spare plant capacity, but the Administration would not take into consideration CLP's Mainland sales in approving any new generation plants. Under SCA, CLP was required to transfer 80% of the profit from its Mainland sales to benefit local electricity customers, which had helped offset part of the increase in tariff in the past. On the other hand, any loss in the Mainland sales would have to be absorbed by CLP's shareholders rather than electricity customers.

Emission Performance Linkage Mechanism

61. Dr LO Wai-kwok noted that the two power companies took different positions over the proposed removal of the Emission Performance Linkage Mechanism ("EPLM"). He asked if the Administration would continue to seek a consistent arrangement. SEN advised that the terms of SCAs of the two power companies were not identical in the past, and it was acceptable that there were different arrangements in the future.

62. Ms Cyd HO criticized the two power companies for refusing to exclude investments in any new or existing emission control facilities from earning permitted return. Ms HO queried how much in electricity tariff the new and existing emission control facilities accounted for. In particular, Ms HO criticized HEC for insisting on maintaining EPLM under SCA. Ms HO said that the power companies should share the responsibility of reducing emissions as well. If the emission control facilities were allowed to be used for calculating permitted return, the power companies should not be given financial incentive payment at the same time.

63. MD/HEC said that EPLM comprised a penalty element as well as an incentive element. The amount of penalty for failing to meet the emission standards was four times the incentive awarded for meeting the standards. The continued enforcement of ELPM was in fact a driving force for HEC to continuously improve the emission requirements.

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64. The Chairman commented that if the emission standards were lenient, HEC would always be able to meet the emission standards and would always receive incentive payment.

Review of fuel mix for electricity generation

65. Dr LO Wai-kwok enquired about the concrete timetable on the review of fuel mix for electricity generation, and the Administration's policy in fostering co-operation with Guangdong authorities on the share of power grids. SEN advised that the review of fuel mix for electricity generation was underway and public consultation was expected to commence in the end of 2013/early 2014.

Reforming the electricity market

66. Mr Albert CHAN added that the increasing use of natural gas had resulted in huge escalation of electricity tariff, which he expected would increase even more significantly after 2015. Mr Albert CHAN asked if the Administration would reform the electricity market in Hong Kong. Mr CHAN also asked whether the Administration would examine the feasibility of owning the power companies or promoting the development of renewable energy. SEN advised that the Administration would look into the proportion and constitution of renewable energy in the context of the review of fuel mix for electricity generation. As regards the purchase of the power companies by the Government, SEN said that the world trend was that those state-owned public utilities were being privatized to bring in more competition.

Pegging tariff increase to Composite Consumer Price Index

67. Mr Michael TIEN said that he was disappointed at the power companies' refusal to accept the Administration's proposal that prior approval from the Executive Council should be obtained if tariff increase exceeded Composite Consumer Price Index. He said that any decision to increase the cost of public utilities had to take into consideration the affordability of the public. Similar mechanism had been incorporated in the price adjustment mechanism of the MTR Corporation. Mr TIEN asked if the Administration would insist on incorporating this provision in the new SCAs in 2018.

68. MD/HEC reiterated that over the past five years, HEC had reduced its Basic Tariff twice, frozen it in one year and only increased it once. To conclude, HEC's Basic Tariff had increased by 0.2 cent/kWh only over the period. By comparison, the inflation rate during the period was 13%. MD/HEC said that the modest increase in tariff reflected the conscious efforts of HEC in keeping the electricity price down as much as possible.

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69. As the meeting was drawing to a close, the Chairman asked the Administration to provide written response on whether the rate of tariff adjustment should be capped at the rate of change of the Composite Consumer Price Index, and whether this approach would be included in the new SCAs to be made in 2018.

VII Any other business

70. There being no other business, the meeting ended at 12:45 pm.

Council Business Division 1
Legislative Council Secretariat
17 January 2014