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**Letterhead of Environment and Food Bureau Government Secretariat**

Paper No. CB(2)1910/99-00(01)

Our Ref: EFB 9/55/07/64 Pt. 4  
Your Ref: CB1/PL/EA

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4 May 2000

Mrs Constance Li  
Clerk to the LegCo Panel on  
Environmental Affairs  
LegCo Secretariat  
3/F, Citibank Plaza  
Garden Road  
Hong Kong  
(By Fax: 2509 9055)

Dear Mrs Li,

**LegCo Panel on Environmental Affairs**

At the special meeting of the captioned held on 28.10.1999, the Administration was asked to provide an estimate on the additional costs that might be incurred as a result of the delay due to forfeiture of the original tunnel contracts under the Strategic Sewage Disposal Scheme (SSDS). This is an interim reply to keep Members informed of the position.

The total approved project estimate for items under SSDS Stage I is around \$8.3 billion. Of this, about \$2 billion was approved for the purpose of completing the remaining tunnelling works subsequent to forfeiture of the original two tunnel contracts. Additional costs resulting from the forfeiture include direct costs for the tunnelling contracts, indirect costs on other related contracts and additional consultants' fees and supervision costs. As works under SSDS Stage I are still on-going, we will only be able to ascertain the actual additional costs after all the works are completed, the maintenance period has expired and the final measurement has been carried out. This is expected to be in 2003.

Separately we have entered into arbitration with the original contractor over the forfeiture of the contracts. Whether Government's forfeiture action is contractually valid and hence entitles Government to recover the additional costs from the original contractor will be determined under the on-going arbitration. We expect to know the results of the arbitration on liability by the end of this year. It will probably take another round of arbitration with the original contractor and several more years to quantify the amount recoverable from the contractor.

While the works are continuing, regular assessment is being made as to whether any additional funds may be required to ensure safe completion of the works. Should these be determined to be necessary, the Administration would approach the Finance Committee.

Yours sincerely,

(Mrs Philomena Leung)  
for Secretary for the Environment and Food