

立法會
Legislative Council

LC Paper No. CB(1)1006/99-00
(These minutes have been seen
by the Administration)

Ref: CB1/PL/ES/1

Legislative Council
Panel on Economic Services

Minutes of meeting held on
Monday, 20 December 1999, at 8:30 am
in the Chamber of the Legislative Council Building

Members present : Hon Fred LI Wah-ming, JP (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Dr Hon LUI Ming-wah, JP
Hon CHEUNG Man-kwong
Hon Ambrose CHEUNG Wing-sum, JP
Hon HUI Cheung-ching
Hon Christine LOH
Hon CHAN Kam-lam
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Howard YOUNG, JP
Hon Mrs Miriam LAU Kin-yee, JP
Hon FUNG Chi-kin

Non-Panel members attending : Ir Dr Hon Raymond HO Chung-tai, JP
Hon Mrs Selina CHOW LIANG Shuk-yee, JP

Members absent : Hon James TIEN Pei-chun, JP (Chairman)
Hon David CHU Yu-lin
Hon LEE Wing-tat
Hon MA Fung-kwok
Hon WONG Yung-kan
Hon LAU Chin-shek, JP

**Public officers
attending**

: For Agenda Item IV

Mr Stephen S K IP, JP
Secretary for Economic Services

Ms Maria KWAN, JP
Deputy Secretary for Economic Services

Mr Howard LEE
Principal Assistant Secretary for Economic Services
(Economic Services)

Mr K T LI
Principal Assistant Secretary for Economic Services
(Financial Monitoring)

Mr K K LAM
Acting Assistant Director of Electrical and Mechanical
Services/Energy Efficiency

Mr CHEUNG Kim-ching
Senior Electrical and Mechanical Engineer
(Utility Monitoring)

For Agenda Item V

Mr Stephen S K IP, JP
Secretary for Economic Services

Ms Maria KWAN, JP
Deputy Secretary for Economic Services

Mr Howard LEE
Principal Assistant Secretary for Economic Services
(Economic Services)

Mr K T LI
Principal Assistant Secretary for Economic Services
(Financial Monitoring)

Mr K K LAM
Acting Assistant Director of Electrical and Mechanical
Services/Energy Efficiency

Mr HO Wing-yiu
Senior Electrical and Mechanical Engineer

**Attendance by
Invitation**

: For Agenda Item IV

CLP Power Hong Kong Limited

Mrs Betty YUEN
Director (Finance and Planning)

Mr Dominic TAI
Sales Development & Energy Services Manager

Hong Kong Electric Co. Ltd

Mrs LI AU Kam-ping, Minnie
General Manager (Human Resources & Public Affairs)

Mr Gary Chang
General Manager (Development & Planning)

Hong Kong & Kowloon Electrical Appliances Merchants
Association Limited

Mr Michael W K FAN
Chairman

Mr Raymond H K WAT
Executive Committee Member

Mr Brian T L LI
Vice president

For Agenda Item V

CLP Power Hong Kong Limited

Mrs Betty YUEN
Director(Finance and Planning)

Mrs Annette HOBHOUSE
Commercial Manager

Mrs Sandra MAK
Group Public Affairs Manager

Dr Albert POON
Chief Planning Manager

Castle Peak Power Co. Ltd.

Mr Wayne HARMS
Director

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Mr Daniel HUI
Senior Assistant Secretary (1)5

Action

As the Chairman was away from Hong Kong, the Deputy Chairman took over the chair of the meeting.

I Confirmation of minutes

(LC Paper No. CB(1)595/99-00 - minutes of meeting held on 15 November 1999)

2. The minutes of meeting held on 15 November 1999 were confirmed.

II Information papers issued since last meeting

3. Members noted that no information paper was issued to the Panel since the last meeting.

III Items for discussion at the next meeting scheduled for 24 January 2000

4. Members agreed to discuss the following items at the next meeting scheduled for 24 January 2000:

- (a) Insurance requirements in respect of civil aircraft in Hong Kong; and
- (b) Terminal Handling Charges.

IV Demand Side Management Programme

Meeting with Hong Kong and Kowloon Electrical Appliances Merchants Association Limited

(LC Paper No. CB(1)608/99-00(04) - written submission)

5. Mr Michael W K FAN, Chairman of the Hong Kong and Kowloon Electrical

Appliances Merchants Association Limited said that the Association supported the Administration's policy to promote energy saving as part of the environmental protection policy. After knowing the Government's intention to implement the Demand Side Management (DSM) programmes, the Association had launched its own promotional activities on selling of electrical appliances with energy labels. Hitherto, the majority of electrical appliances imported by the Association's members were energy-labelled products. In this regard, Mr FAN noted that the ratio of room coolers and refrigerators with energy label as set out in paragraph 10 of the information paper provided by the Administration (LC Paper No. CB(1)608/99-00(03)) was on the low side because the Administration had included the inventories which did not have energy labels in the calculation. If these inventories were excluded, the ratio of energy-labelled room coolers and refrigerators would be about 70% and 60% respectively. He supplemented that members of the Association were still concerned about the timing of implementation of the DSM programmes. Sufficient lead time had to be allowed for member companies to off-load the inventories, to identify sources for more energy-labelled products and to allow time for production planning. Mr FAN said that overseas countries would normally allow three to five years for compulsory selling of energy-labelled products. According to a recent survey, 84% of the Association's members objected to the implementation of the DSM programmes in the first half of 2000. The Association therefore urged the Administration to defer its implementation by one year, and a critical review on the pros and cons of the programme should also be conducted before proceeding further.

6. Mr FAN further advised that the Association believed that the best approach to promote the use of energy-labelled products was through public education and publicity campaign by the Administration as well as trade association. As long as consumers were aware of the economic benefits of energy efficient products, they would be willing to buy them. The Association remained doubtful about using so much resources as set out in the Administration's information paper for the implementation of the DSM programmes.

7. Mr HUI Cheung-ching noted that the Association had mentioned in its written submission that existing inventories of refrigerator, room cooler and washing machine were estimated at about 72,500, 201,700 and 73,200 units respectively. He enquired about the estimated time required for clearing out the inventories. Mr Michael FAN replied that on the assumption that Hong Kong's economy would recover in 2000, the Association hoped that the inventories could be cleared by end 2000.

8. Mr Kenneth TING Woo-shou and Mr Howard YOUNG asked whether by end 2000, all the electrical appliances on sale would be energy-labelled products. Mr FAN advised that although the majority of electrical appliances imported were energy-labelled products, it was likely that some overseas manufacturers still manufactured some models which were not qualified for the energy-labels. Moreover, it also depended on whether all existing inventories could be cleared by end 2000.

9. In reply to Mrs Selina CHOW LIANG Shuk-yee's question, Mr FAN confirmed

that the Association believed that educating the public on the advantage of energy saving appliances and the provision of sufficient information to consumers would be the best approach in promoting energy-labelled products. Mr FAN reiterated that the Association had launched publicity programme amongst its members and most electrical appliances imported were energy efficient appliances.

10. Mr SIN Chung-kai said that while he supported the deferral of the implementation of the DSM programmes in respect of domestic appliances, he would like to know the Association's view on when its members would be ready for implementation of the programmes. Mr FAN advised that the Association estimated that its members would require about 12 months to identify new supply sources, to work out new production schedules, and to clear the existing inventories.

Meeting with the Administration

(LC Paper No. CB(1)608/99-00(03) - Information paper provided by the Administration)

11. The Secretary for Economic Services (SES) introduced the revised arrangement for implementation of the DSM programmes as set out in the information paper provided by the Administration.

12. Mr CHEUNG Man-kwong referred to paragraph 14 of the information paper provided by the Administration and sought clarification on whether there was any discrepancy between the Economic Services Bureau (ESB) and the Planning, Environment and Lands Bureau (PELB) in relation to consumer product legislation. SES replied that there was no contradictory policies between ESB and PELB. The position was that ESB was of the view that mandating through legislation the use of energy labelled appliances was not preferred because prohibiting the use of a particular type of electrical appliance would normally be done for safety reasons. Nevertheless, as requested by members at the Panel meeting on 24 May 1999, ESB had discussed with the PELB the possibility of legislating for mandatory labelling for energy efficiency of electrical appliances.

13. Mr CHEUNG Man-kwong opined that mandatory labeling for energy efficiency of electrical appliances, supplemented by public education on the advantage of energy efficient appliances would be a better alternative than the proposed rebate scheme on purchase of energy-labelled appliances which involved substantial administration costs and involved cross-subsidy between consumers who had made use of the rebate scheme and those who had not. He also urged Government departments and Government-funded organizations to purchase only energy-labelled electrical appliances. This would assist to create a substantial market for energy-labelled electrical appliances. The Principal Assistant Secretary for Economic Services (Economic Services) (PAS/ES) advised that the purchase of electrical appliances by the Government Supplies Department was subject to specified energy saving requirement. Further information in this regard had been provided to members after the Panel meeting on 24 May 1999 (Post-meeting note: The

Admin.

information provided by the Administration had been circulated to members vide LC Paper No. CB(1)281/99-00(02)). As regards requiring Government-funded organizations to purchase energy-labelled products, SES said that ESB would refer members' view to PELB for consideration.

14. Mr HUI Cheung-ching pointed out that the proposed rebate scheme would have serious consequences to existing inventories of electrical appliances which did not qualify for energy labels. He enquired whether the Administration had considered the consequences, having regard to overseas experience. SES replied that the Administration understood the problems faced by retailers in clearing the stock of electrical appliances without energy-labels. The Administration had therefore proposed a second option as in paragraph 12 of the information paper, whereby the rebate scheme for the residential sector would be deferred for one year. As regards overseas experience, the Assistant Director/Energy Efficiency (Acting) (AD/EE (Atg)) said that in some overseas countries, electrical appliances without energy labels would not be available for sale three to five years after implementation of DSM programmes. Hence, the Administration had proposed to adopt a 3-year implementation schedule for DSM programmes during which the power companies would offer rebates to customers for the purchase of energy efficient appliances as appropriate.

15. Mrs Selina CHOW appreciated that the revised arrangements for implementation of DSM programmes as set out in the paper provided by Administration had addressed most of the concerns raised by members at the Panel meeting held on 24 May 1999. She welcomed the proposal to defer the implementation of DSM programmes in respect of the domestic sector for one year. She was of the view that promotion of energy-labelled appliances should best be implemented through public education and provision of adequate information to consumers. She noted that the residential sector accounted for only about 15% of the generating capacity savings and enquired whether the Administration would consider implementing the DSM programmes in respect of the commercial and industrial sector only. PAS/ES responded that although the residential sector would only contribute to about 15% of the generating capacity savings, inclusion of the residential sector in DSM programmes would encourage the public to be more conscious of energy efficiency and environmental protection.

16. Mr CHAN Kam-lam said that despite the fact that the revised arrangement for implementing the DSM programmes was better than the original proposal, the Democratic Alliance for Betterment of Hong Kong (DAB) remained against the implementation of the DSM programmes in the residential sector. DAB was of the view that there were other means to encourage consumers to use energy-labelled appliances which would in turn lower the maximum demand for electricity. This could also save the administration costs amounting to over \$100 million for implementing the DSM programmes which would be eventually borne by consumers. Mr CHAN Kam-lam opined that as the reserve capacity of CLP Power Hong Kong Limited and Hong Kong Electric Company Limited remained high, there was no urgency to reduce the maximum demand for electricity in order to delay the installation of new generating

facility. In response, PAS/ES said that the Administration was conscious of the need to reduce cost of implementation of DSM programmes and had proposed measures which would be able to reduce the cost by about 20%. For a typical household, the new DSM charge would be around \$1-\$2 per month. SES supplemented that in return for these DSM charges, a household participating in the rebate scheme could claim a maximum rebate of up to \$740 in the three-year period. He emphasized that the Administration had an open mind as regards implementation of DSM programmes in the residential sector. The Administration would conduct a thorough review within the coming year to decide on the way forward in the residential sector.

17. To promote the use of energy-labelled appliance, Mr SIN Chung-kai suggested that the Administration could consider the option of imposing an import tariff on electrical appliances not qualified for energy labels. Mr LUI Ming-wah suggested that, similar to practices of some overseas countries, the Administration could also consider banning import of electrical appliances not qualified for energy labels. Mr Kenneth TING opined that he objected to the proposal to impose import tariff or import ban for the purpose of promoting the use of energy-labelled products. Mr TING reiterated that public education and provision of sufficient product information to consumers would be better alternatives for the said purpose. Mr CHAN Kam-lam objected to imposing import tariff or sales tax on electrical products not qualified for energy labels. SES noted that members had different views on import tariff or import ban. He added that the Administration would take note of members' views in conducting the review on the subject during the coming year.

18. As regards Mr LUI Ming-wah's question on which Government Department was responsible for approving energy labels for electrical appliances, AD/EE (Atg) advised that Electrical and Mechanical Services Department (EMSD) was responsible for approving relevant energy labels. EMSD would consider a product's energy saving performance, laboratory testing reports, quality of the product, etc. in approving the energy labels.

19. In summary, Mr CHAN Kam-lam said that DAB objected to implementation of the DSM programmes in the residential sector. They supported the alternative proposal to proceed with implementation of DSM programmes in the non-residential sector but defer the implementation of DSM programmes in the residential sector for one year. Mrs Selina CHOW said that the Liberal Party also supported the alternative proposal and the deferral in implementation of the DSM programmes in the residential sector for one year. Liberal Party urged the Administration to adopt a flexible attitude in reviewing the DSM programmes in the residential sector, and believed that publicity and educational programme rather than the rebate scheme should be used to promote the use of energy-labelled products. Mr CHEUNG Man-kwong remarked that the Democratic Party considered that the rebate scheme unfair because there would be cross-subsidy among electricity consumers. Democratic Party also supported the alternative proposal and deferral of the implementation of the DSM programmes in the residential sector for one year. Democratic Party considered that a three-pronged approach should be adopted to promote the use of energy-labelled

products. The measures included import tariff on selected products, legislation against the provision of non-energy efficient appliances, and Government Departments and Government-funded organizations taking the lead to purchase energy-labelled electrical appliances.

V CLP Power Hong Kong Limited's Generating Capacity

(LC Paper No. CB(1)628/99-00(01) - Information paper provided by the Administration)

20. SES and the Deputy Secretary for Economic Services (DS/ES) briefed members on the background and considerations leading to the deferral of two generating units of CLP Power Hong Kong Limited (CLP) at Black Point (BP) Power Station until 2005 and 2006, and the disposal of 442MW of CLP's diesel-fired turbines at Tsing Yi and Castle Peak as set out in the information paper provided by the Administration.

21. Members were concerned about the tariff impact on consumers if CLP was allowed to install the generating units 7 and 8 at BP Power Station in 2005 - 2006, because the Government's independent consultant had found that units 7 and 8 would be required only in 2008 and 2010 respectively. They enquired whether the Administration had required CLP to defer installation of units 7 and 8 to 2008 and 2010 respectively. In response, SES advised that the Administration had considered all options, including cancellation of units 7 and 8 and/or sale of units 7 and 8, and concluded that the present proposal was most beneficial to consumers given various contractual and practical constraints. The Energy Advisory Committee had also been consulted on the present decision. Mrs Betty YUEN, Director (Finance and Planning) of CLP said that CLP had projected that units 7 and 8 in BP Power Station were base load generating plant and would be required in 2005 - 2009 if demand for electricity grew in the range of 2% - 4% per annum in the coming years. Mrs Annette HOBHOUSE, Commercial Manager of CLP supplemented that in accordance with the Scheme of Control Agreement (SCA) between CLP and the Government, CLP was required to provide a reliable supply of electricity. If CLP installed unit 7 later than 2005 and Hong Kong's GDP growth exceeded 4.5% per annum, CLP's reliability in supply of electricity might be compromised. As Hong Kong's GDP growth at 4.5% in the coming years was not unrealistic, there was a good chance that the units would be required in 2005 - 2009.

22. Mr CHEUNG Man-kwong pointed out that CLP had excessive reserve capacity, but HEC was proposing to build a new electricity generating plant to meet forecast demand. He enquired whether the Administration had considered mandating CLP to sell units 7 and 8 to HEC thereby obviating HEC's need to build a new power station. Asset value of units 7 and 8 would then be counted under HEC's account. SES advised that the monitoring of the power companies had to be in accordance with provisions in the SCA which were binding contracts between the Government and the power companies. Under the SCA, the Government had no authority to require HEC to purchase units 7 and 8 from CLP. HEC had also expressed objection to purchase

the units.

23. Members opined that if CLP was allowed to install units 7 and 8 in 2005 to 2006, there should be a provision that the cost of units 7 and 8 should not be counted as asset value of CLP in 2005 - 2006 for the purpose of calculating the permitted return under the SCA unless there was data showing that the units were actually required for generating electricity to meet the demand in that year. The Deputy Chairman added that CLP's reserve capacity should be lowered to a reasonable level, say 30%, before the cost of units 7 and 8 be counted as assets for calculating permitted returns. This arrangement would be fairer to consumers. SES reiterated that all practical options had been examined and the present decision was the most beneficial to consumers. He added that CLP had announced that CLP's tariff for 2000 would be frozen at the present level. He agreed to further discuss with CLP how cost to consumers could be alleviated.

24. Mrs Betty YUEN emphasized that CLP's overall performance was good even though its reserve capacity was higher than expected due to the unforeseen large scale relocation of Hong Kong's manufacturing industry to the Mainland since 1992. She advised that CLP's electricity price on a per unit basis was the cheapest in Hong Kong. Moreover, the BP Power Station was one of the most environmentally friendly power generating plant in Southern China. The thermal efficiency of BP Power Station was also very high. Mrs YUEN assured members that CLP had tried its best to reduce cost in order to maintain low electricity tariff and CLP would continue its efforts in this direction.

25. Mr Kenneth TING remarked that CLP's tariff for industrial use was not cheap as compared with neighbouring countries. Mr SIN Chung-kai said that reserve capacity was a major criterion in measuring the performance of an electricity company.

26. Mr Kenneth TING referred to paragraph 3 of the Legislative Council Brief attached to LC Paper No. CB(1)628/99-00(01) and enquired the basis for the additional premium of about \$90 million per machine per annum for each year of deferral. He was also concerned whether the Administration had any monitoring on supply contracts signed between CLP and its electricity generating unit supplier. Mrs Betty YUEN explained that the \$90 million premium per machine per annum provision was not a penalty clause. The money was required for the cost of storage of the equipment which had been manufactured and the inflation adjustment of cost for completing the manufacture of the units in future. The \$90 million premium was in line with a similar deferral provision included in the original contract which was exercised in 1994. As regards monitoring on the power companies, DS/ES advised that during the interim review of the SCAs, Government had agreed with the power companies on a revised mechanism in approving new generating unit. In future, new electricity generating facility would be approved on per unit basis. The power companies would then review latest forecast demand data in consultation with the Government before entering into contracts for purchasing of electricity generating

units. Moreover, part of the cost of installation of new generating units would not attract a return if there was excessive reserve capacity after installation of the new generating unit.

Admin. 27. In reply to the Deputy Chairman's request, SES agreed to request CLP to consider providing its estimated reserve capacity for each year from 1999 to 2005 - 2006.

28. As regards the Deputy Chairman's request that CLP should not transfer to consumers the additional cost of deferral of units 7 and 8, which amounted to \$592 million for the three-year deferral option to 2003 - 2004 and some \$300 million for a further two-year deferral to 2005 -2006, Mrs Betty YUEN said that CLP would act in accordance with the provisions in the SCA in treating the additional costs.

29. Mr Ambrose CHEUNG Wing-sum requested CLP to provide data showing its forecast electricity tariff if units 7 and 8 was installed in 2005 to 2006. Mrs Betty YUEN advised that CLP had provided a five-year Financial Plan to the Government which included data on forecast tariff, etc, on the assumption that units 7 and 8 at BP Power Station would be operational in 2005 - 2006.

30. As regards whether CLP could release its data on forecast demand, Dr Albert POON said that data on forecast demand of CLP would reflect the sales and profitability of the company. These were therefore commercially sensitive data and could not be released to the public. However, these data had already been provided to the Administration.

31. Dr LUI Ming-wah queried CLP's methodology in calculating its forecast demand. He noted that although Hong Kong's GDP might grow by 4.5% per annum, growth in different sector of the economy would differ. Moreover, demand for electricity in the service sector would be much smaller than demand of electricity in the industrial sector. He enquired whether CLP had taken into consideration that the service sector had replaced the industrial sector as the largest sector of Hong Kong's economy. Mr Howard YOUNG enquired whether the effect of the Asian financial turmoil and implementation of DSM programmes had been taken into account in forecasting electricity demand. In response, Dr Albert POON advised that CLP's customers were divided into 21 categories for the purpose of forecasting demand of each category of customers. The forecast growth for each category would be different taking into account different factors affecting the category of customers. Based on past record, CLP's estimates on the non-manufacturing sectors were very accurate. The forecast in respect of the manufacturing sector had gone wrong because the speed and magnitude of relocation of Hong Kong's factories to the Mainland were underestimated. Dr POON confirmed that the effect of the Asian financial turmoil and implementation of DSM programmes had been taken into account in forecasting the demand in coming years. Mrs HOBHOUSE supplemented that CLP's forecast had been accurate so far other than in the forecast for the manufacturing sector. A U-shape restructuring, which was very unusual, was seen

between 1992 and 1999. There was now firm data in supporting the building of BP units 7 and 8 beyond 2005 and 2006.

32. Mr Eric LI Ka-cheung said that as Chairman of the Public Accounts Committee (PAC) of the Legislative Council, he did not want to comment on the specifics of the case at this stage because the PAC was following-up the issue. The Administration would provide a written response to comments raised by the PAC. He opined that in considering matters related to SCAs, CLP should not look at things from the angle of its shareholders only, but also from the angle of the people of Hong Kong at large. He also added that PAC was of the view that forecasting of demand by CLP in 1992 could be more accurate because the trend of relocation of factories to the Mainland had started much earlier than 1992.

Admin. 33. Summing up the discussion, the Deputy Chairman urged the Administration to provide written reply to the list of written questions raised by him and to provide data on CLP's reserved capacity for the years up to 2005 - 2006.

(Post-meeting note: the list of written questions raised by the Deputy Chairman and the Administration's written response had been issued to members vide LC Paper Nos. CB(1)655 and 692/99-00 respectively.)

VI Any other business

34. There being no other business, the meeting ended at 10:45 am.

Legislative Council Secretariat
16 February 1999