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Legislative Council

<u>LC Paper No. CB(1)741/03-04</u>
(These minutes have been seen by the Administration)

Ref: CB1/PL/ES/1

Panel on Economic Services

Minutes of meeting held on
Tuesday, 16 December 2003, at 2:30 pm
in the Chamber of the Legislative Council Building

Members present	:	Hon James TIEN Pei-chun, GBS, JP (Chairman) Hon Kenneth TING Woo-shou, JP Dr Hon Eric LI Ka-cheung, GBS, JP Dr Hon David LI Kwok-po, GBS, JP Hon Fred LI Wah-ming, JP Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP Hon CHEUNG Man-kwong Hon HUI Cheung-ching, JP Hon CHAN Kam-lam, JP Hon SIN Chung-kai Hon Miriam LAU Kin-yee, JP Hon CHOY So-yuk Hon Abraham SHEK Lai-him, JP Hon LI Fung-ying, JP Hon Henry WU King-cheong, BBS, JP Hon LEUNG Fu-wah, MH, JP
Non-Panel Member attending	:	Ir Dr Hon Raymond HO Chung-tai, JP
Members absent	:	Dr Hon LUI Ming-wah, JP (Deputy Chairman) Dr Hon Philip WONG Yu-hong, GBS Hon Howard YOUNG, SBS, JP Hon LAU Chin-shek, JP

Public Officers attending : **Agenda Item IV**

Economic Development and Labour Bureau

Ms Eva CHENG
Commissioner for Tourism

Mrs Winifred CHUNG
Assistant Commissioner for Tourism

Architectural Services Department

Mr LEE Yuk-shing
Chief Project Manager

Mr Jonathan YUNG
Senior Project Manager

Mr Raymond FUNG
Senior Architect

Agenda Item V

Economic Development and Labour Bureau

Mr Wilson FUNG
Deputy Secretary for Economic Development and Labour (Economic Development)

Mr Darryl CHAN
Principal Assistant Secretary for Economic Development and Labour (Economic Development)

Agenda Item VI

Economic Development and Labour Bureau

Mr Raymond FAN
Deputy Secretary for Economic Development and Labour (Economic Development)

Marine Department

Mr TSUI Shung-yiu
Director of Marine

Mr Roger TUPPER
Deputy Director of Marine

Agenda Item VII

Economic Development and Labour Bureau

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Miranda CHIU
Acting Permanent Secretary for Economic Development and Labour (Economic Development)

Mr James WONG
Principal Assistant Secretary for Economic Development and Labour (Economic Development) (Financial Monitoring)

Attendance by invitation : **Agenda Item VII**

The Hongkong Electric Co., Ltd.

Mr George C MAGNUS
Chairman

Mr K S TSO
Group Managing Director

Mr Francis L Y LEE
Director & General Manager (Engineering)

Mr Andrew J HUNTER
Group Finance Director

Mr Steve NG
Deputy Chief Accountant

CLP Power

Mrs Betty YUEN
Managing Director

Mr S H CHAN
Planning Director

Ms Jane LAU
Public Affairs Director

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

Staff in attendance : Miss Anita HO
Assistant Legal Adviser 2

Ms Debbie YAU
Senior Assistant Secretary (1)1

Miss Winnie CHENG
Legislative Assistant 5

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I Confirmation of minutes and matters arising

(LC Paper No. CB(1)550/03-04 - Minutes of meeting held on 24 November 2003)

The minutes of the meeting held on 24 November 2003 were confirmed.

II Information papers issued since last meeting

(LC Paper No. CB(1)482/03-04(01) - Tables and graphs showing the import and retail prices of major oil products from November 2001 to October 2003 furnished by the Census and Statistics Department

LC Paper No. CB(1)499/03-04(01) - A survey report and recommendations on eco-tourism published by the Democratic Party)

2. Members noted the information papers issued since last meeting.

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III Items for discussion at the next meeting scheduled for 15 January 2004

(LC Paper No. CB(1)549/03-04(01) - List of outstanding items for discussion

LC Paper No. CB(1)549/03-04(02) - List of follow-up actions)

3. Members agreed to discuss the following items at the next meeting scheduled for 15 January 2004 at 4:30 pm:

(a) Policy briefing by the Secretary for Economic Development and Labour on the relevant policy initiatives featuring in the Chief Executive's 2004 Policy Address

(b) Marine-related subsidiary legislation

  (i) Two regulations under the Merchant Shipping (Prevention and Control of Pollution) Ordinance, Cap. 413;

  (ii) Merchant Shipping (Prevention and Control of Pollution) (Specification of Substances) (Amendment) Order; and

  (iii) Shipping and Port Control (Amendment) Regulations

(c) Expansion of heliport facilities at Macau Ferry Terminal

IV Tsim Sha Tsui Promenade Beautification Project

(LC Paper No. CB(1)549/03-04(03) - Information paper provided by the Administration)

4. With the aid of PowerPoint, the Senior Architect of the Architectural Services Department (SA/ASD) briefed members on the Administration's plan to enhance the attractiveness of the Tsim Sha Tsui Promenade (the Promenade) as a popular scenic spot for both local citizens and tourists. The beautification works of the Promenade, at an estimated cost of $162.3 million in money-of-the-day prices, was planned to start in August 2004 for completion in April 2006.

Design and maintenance

5. The Chairman was concerned about the overall design of the Promenade, bearing in mind a number of entities including New World Development Co. Ltd (NWD) and Kowloon-Canton Railway Corporation were involved in the development of facilities along the Promenade. He enquired whether the Administration had formulated an overall plan to achieve a unified design along the whole Promenade. He also enquired about the distribution of maintenance responsibility among the parties concerned.

6. On the design of the Promenade, the Commissioner for Tourism (C for Tourism) pointed out that the Administration maintained close contact with the parties concerned with a view to achieving a unified design along the whole Promenade. As regards the Avenue of Stars, C for Tourism said that it was a

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landmark project to commemorate the achievement of the film industry in Hong Kong and worldwide. It was funded and constructed by NWD. As part of the package, the Leisure and Cultural Services Department (LCSD) would entrust the management, maintenance and operation of the Avenue of Stars to NWD for 20 years. Regarding the maintenance responsibility for the rest of the Promenade, it would be continued to be undertaken by LCSD.

7. In response to Mr Kenneth TING's question about the annual recurrent expenditure for the Promenade, the Assistant Commissioner for Tourism explained that the current recurrent expenditure for the Promenade was $4.6 million and the recurrent expenditure upon completion of the Project was estimated to be $5.4 million. The additional $0.8 million was required for up-keeping the operation of the interactive information boards and for plant conservation.

8. Members noted that the on-going railway project at Tsim Sha Tsui East would be built underground and would not create any visual intrusion along the Promenade.

Tourism software

9. Whilst expressing support for the project, Ms LI Fung-ying was worried that there would be inadequate parking space for coaches at the Promenade. She urged the Administration to plan ahead for the necessary supporting infrastructure.

10. SA/ASD and C for Tourism informed members that there was plan to designate loading and unloading areas for coaches in the vicinity of the Alfresco Dining area which could accommodate ten coaches. When the bus terminus in Star Ferry Pier was relocated, arrangements could be made to designate four additional loading and unloading points for coaches near the Hong Kong Cultural Centre to cope with the demand. C for Tourism explained that the coach lay-bys were provided to facilitate the loading and unloading of tourists. If drivers wish to park their coaches, they could proceed to a vehicle holding area at Canton Road near Jordan where parking spaces would be available. .

11. Referring to the greenery plans along the waterfront of the Central and Western District and the Hong Kong Convention Centre, the Chairman urged the Administration to exercise due care in selecting plants for the Promenade. The Chairman was also concerned about the adequacy of public toilets to cope with visitors' demand.

12. On greenery plan for the Project, SA/ASD stressed that the Administration was mindful of the need to select the right species of plants that could resist strong and salty wind along the Promenade. To this end, "Linden Hibiscus" with large leaf and big trunk, which had been erected as shade structures at the Hong Kong Cultural Centre Piazza for some time, was considered suitable for use.

13. On provision of washroom facilities, SA/ASD said that apart from general improvement to the existing public toilet adjacent to the Star Ferry Pier, a new public toilet would be provided next to the loading and unloading area for coaches near the Alfresco Dining area.

14. Mr SIN Chung-kai welcomed the implementation of the Project. He urged the Administration to explore the possibility of public-private partnership in promoting the dissemination of tourist information by means short message service through mobile phones. .

15. C for Tourism echoed Mr SIN's view that tourism software should be strengthened to enhance the attractiveness of the scenic spots. She said that the interactive information boards available along the Promenade were designed to serve the purpose. In addition to recreational and dining facilities, the range of information could vary from programmes of Hong Kong Cultural Centre to events organized by the Hong Kong Tourism Board in other parts of Hong Kong.

16. Summing up, the Chairman expressed the Panel's support for the Project. Members noted that the Administration intended to put the relevant funding proposal to the Public Works Subcommittee for consideration at its meeting on 4 February 2004.

V Air Transport (Licensing of Air Services) (Amendment) Regulation 2003

(LC Paper No. CB(1)549/03-04(04) - Information paper provided by the Administration)

17. At the invitation of the Chairman, the Deputy Secretary for Economic Development and Labour (Economic Development) DS/EDL(ED) briefed members on the Administration's proposal to amend the Air Transport (Licensing of Air Services) Regulations (Cap. 448A) (the Regulations) to prescribe a quorum of the Air Transport Licensing Authority (ATLA) for the dispatch of business. ATLA was a statutory body established under the Regulations and was responsible for issuing route licences to Hong Kong airlines for the operation of scheduled air services to and from Hong Kong. Subject to members' support and approval by the Chief Executive in Council, the amendment was expected to be gazetted in January 2004. The amendment would be tabled at the Legislative Council for negative vetting in early February 2004. The Aviation Advisory Board had been briefed of this proposal.

18. Mr SIN Chung-kai was of the view that a quorum of three members was too small and should be enlarged. DS/EDL(ED) explained that the present proposal was drawn up having regard to the minimum number of members required for ATLA to discharge its duties. Regulation 4(1) of the Regulations provided that ATLA should consist of not less than three members. Moreover, an odd

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number of members was preferred to avoid the situation of a hung decision when a consensus could not be reached. An alternative choice of an odd-number quorum would be five. However, as there were only six serving ATLA members, a quorum of five was an unreasonably high quorum and would create practical difficulties for ATLA in discharging its duties.

19. The Chairman enquired about the workload of ATLA. DS/EDL(ED) replied that applications for route licences were normally considered and decided by ATLA through circulation of papers (for uncontested applications) or hearing (for contested applications). In the past ten years, only one hearing was held, which was related to Cathay Pacific Airways' application for a route licence to three points in the Mainland of China. He further said that in the event of a hearing, the Chairman of ATLA would confirm with its members on their availability to conduct the hearing so that the same group of members could attend all sessions of the hearing. For the case of Cathay Pacific Airways' hearing in January 2003, intensive sessions had consecutively been held for two weeks.

20. In reply to Ms Miriam LAU, DS/EDL(ED) said that under the law, in case there was a tie in a voting within ATLA, the Chairman should have a casting vote. Nevertheless, the Chairman of ATLA would normally prefer not to exercise such right and hence, an odd-number quorum was preferred.

21. Summing up, the Chairman concluded that the Panel supported the proposal.

VI Merchant Shipping (Security of Ships and Port Facilities) Bill

(LC Paper No. CB(1)549/03-04(05) - Information paper provided by the Administration)

22. At the invitation of the Chairman, the Director of Marine (D of M) briefed members on the proposed Merchant Shipping (Security of Ships and Port Facilities) Bill 2004 (the Bill). Members noted that the Administration planned to introduce the Bill into the Legislative Council in March 2004.

23. The Chairman enquired about the implications of the proposed Bill on the industry such as whether the proposed measures would be too stringent for the industries to properly comply and whether consultation had been carried out. Ms Miriam LAU also enquired whether port operators had been consulted as the new provisions might affect their operation.

24. D of M explained that the Administration had consulted the marine sector, including all the key associations in the shipping and port industries when the proposal was formulated. The Administration would brief the industries again and issue guidelines to facilitate their compliance.

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25. Regarding the justifications for the proposal, D of M said that there was a need to enhance the level of security on Hong Kong ships and port facilities in Hong Kong to an agreed international standard. D of M further said that ships engaged in international voyage and port facilities serving such ships were required to conduct security assessments for developing security plans and procedures to react to different security levels. The security assessment and security plan of a ship would need to be approved by the ship's flag administration or its authorized Recognized Security Organization. An International Ship Security Certificate would be issued to the ship upon verifying its compliance. Ships failing to comply with the requirements might be subject to refusal of entry into a port, detention or expulsion from a port.

26. On behalf of the Democratic Party, Mr SIN Chung-kai expressed support for the Bill. He however enquired about the role and status of Hong Kong in the IMO, and whether Hong Kong needed to implement legislation accepted by the Mainland which was a member state of the IMO.

27. D of M advised that being an associate member of the IMO, Hong Kong could express freely at meetings of the IMO but Hong Kong did not have any voting right for adoption of International Conventions. In the present case, Hong Kong was required to notify the IMO, through the Mainland, on the appointment of the "Designated Authority". On the implementation of legislation adopted by the IMO, Hong Kong should enact its own legislation to give effect to an international convention adopted by the IMO. Given the unique situation of different ports, D of M confirmed that there might be some variations as to the extent of the security control measures on foreign ships entering a port. However, a Certificate issued by a "Designated Authority" of the IMO would be universally accepted by all other Member states.

28. Members noted that the Security Bureau and the Hong Kong Police Force (HKPF) would be responsible for setting the security levels. Approval of security assessments and security plans for port facilities would be given by the D of M as the Designated Authority following advice from the HKPF and other security departments. D of M would assume the responsibility of "Designated Authority" for ensuring the implementation of those provisions pertaining to port facility security and the ship/port interface and to exercise control on foreign ships entering its territorial waters or port areas.

29. Summing up, the Chairman remarked that the Panel was in support of the Bill.

30. Members agreed to adjourn the meeting at 3:25 pm. The meeting resumed at 4:00 pm.

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VII Electricity tariff for 2004

(LC Paper No. CB(1)605/03-04(02) - Power-point presentation material provided by Hongkong Electric Co. Ltd.

(LC Paper No. CB(1)605/03-04(03) - Power-point presentation material provided by CLP Power Company Limited)

Presentation by Hongkong Electric Co. Ltd.

31. Mr George C MAGNUS, Chairman of the Hongkong Electric Co. Ltd. (HEC) said that HEC would be freezing electricity tariffs for all customers next year, which was the fourth time since 1998. The unforeseen outbreak of SARS epidemic had a major negative impact on the economy, HEC's business, and the livelihood of its customers. HEC had been very responsible in balancing the interests of its major stakeholders in the community as well as responsive to the economic and social conditions in Hong Kong. It was against this background that the Board of HEC had unanimously decided to freeze HEC's tariff to show its strong commitment to Hong Kong and to share the burden in helping the economy to recover. HEC considered this short term sacrifice under these unique circumstances to be in the long term interests of the community and its shareholders. Mr MAGNUS remarked that HEC had continued to review its capital expenditure programme very carefully in the light of slower demand growth. It had decided to defer the Lamma power plant extension project for another year to 2006. In addition, significant savings had been made in operating expenses resulting in productivity gains. All these actions had the effect of easing the pressure on tariffs. Mr MAGNUS also highlighted that HEC was well aware of the huge disruption and extensive financial damage caused by the blackouts in North America, England, Scandinavia, Italy, Malaysia and Taiwan. Against this backdrop, HEC remained fully committed to the provision of a world-class, reliable and cost-effective power supply to meet the long-term needs of Hong Kong. He stressed that this continued emphasis on reliability and the tariff freeze for 2004 would play their part in speeding up the economic growth of Hong Kong.

32. With the aid of PowerPoint, Mr Andrew J HUNTER, Group Finance Director of HEC provided the following information on the adjustment of individual tariff components for 2004:

Tariff Components (cents/kWh)	2003	2004
Average Basic Tariff	108.5	108.5
Fuel Clause Rebate	-6.1	-6.1
Special Rebate	-1.0	-1.0
Rate Reduction Rebate	-0.1	-0.1

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Average Net Tariff	101.3	101.3

He explained that HEC's tariff components and average net tariff for 2004 were the same as those for 2003 for all customers. A Special Rebate would be offered to customers which would be funded by the Company's Development Fund (DF). In case there was a shortfall, the difference would be funded by shareholders. On Fuel Clause Rebate (FCR), the present estimate was worked out on the basis of the latest information available. However, due to the recent volatility in coal prices, there might be a need to adjust the FCR to reflect the actual fuel cost incurred during 2004. Any adjustment however would not affect the profits of the Company. HEC also undertook to consult the Government and brief the Panel before any change to the FCR was made.

Presentation by CLP Power

33. Mrs Betty YUEN, Managing Director of CLP Power gave a PowerPoint presentation on the tariff adjustment of CLP for the year 2004. CLP would freeze its tariff for the sixth consecutive year in 2004. In addition, the Company would offer a HK$500 million rebate to customers. She provided the following information on the adjustment of individual tariff components for 2004:

Tariff Level (cents/unit)	2003	2004
Basic Tariff	88.5	88.5
Fuel Clause Charge/(Rebate)	1.9	(0.3)
Rate Reduction Rebate	(0.6)	(0.6)
Special Rebate	(2.2)	
Demand Side Management Charge	0.2	
Business Relief Rebate	(0.2)	
Total Tariff	87.6	87.6

She explained that the 2004 tariff would remain at the current level having taken into account a reduction of Fuel Clause Charge of 2.2 cents per unit and the removal of the Special Rebate of 2.2 cents, the Demand Side Management Charge of 0.2 cents and the Business Relief Rebate of 0.2 cents. With the adjustment and removal of some of these tariff components, the electricity bill for customers was simplified with no financial impact.

34. On CLP's 2004 tariff rebate of $500 million, Mrs Betty YUEN said that CLP customers would receive a one-off rebate of 1.7 cents per unit based on their metered consumption in 2003, which was equivalent to about 2% reduction in electricity price. The rebate amount would be credited to customers' accounts starting from 1 March 2004 to offset electricity charges until the amount was fully

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utilized. Together with the HK$460 million rebate already made to customers in the middle of 2003, CLP was offering rebates totalling HK$960 million this year, representing a 3.8% reduction of the average electricity tariff. The 2004 rebate package was funded by the Company's DF and related accounts. Mrs YUEN stressed that the tariff rebate was made possible as result of the Company's continued efforts in cost control and productivity improvement as well as strong Mainland sales. Mrs YUEN also introduced the benefits shared by its customers under the 2004 rebate package:

(a) Around 50% of the domestic customers, or 800,000 customer accounts, would receive an amount of between HK$50 and HK$200. Including the mid-year rebate, they would have received a total of HK$160 to HK$400, which was equivalent to free electricity for one half to three quarters of a month.

(b) Non-domestic customers would receive the following rebate amounts:

   (i) General Service Tariff: Around 40% of these customers would receive rebates of HK$200 to more than HK$1,020. Including the mid-year rebate, the total amount would range from HK$680 to more than HK$3,430;

   (ii) Bulk Tariff: These customers would receive rebates of HK$30,000 to HK$540,000. Including the mid-year rebate, the total amount would range from HK$40,000 to HK$550,000; and

   (iii) Large Power Tariff: These customers would receive rebates of HK$200,000 to HK$4,500,000. Including the mid-year rebate, the total amount would range from HK$210,000 to HK$4,510,000.

Mrs YUEN also highlighted that CLP supported Hong Kong's growth with a reliable electricity supply at reasonable cost. Through success in managing cost, CLP had frozen its tariff since 1998 and offered several rebates since 1999. Including this latest rebate package, CLP would have rebated almost HK$3 billion to its customers over the last few years.

Discussion with Members

Tariff reduction

35. While welcoming a tariff freeze, Mr CHAN Kam-lam reflected the general expectation of the public for a tariff reduction. He said that due to the persistent deflation over the years, the two power companies were actually earning an extra profit, despite the continued offering of rebates by CLP. Notwithstanding a tariff freeze, he enquired whether the companies would be able to achieve the permitted rate of return in the forthcoming year. He also sought information on the comparison between the total rebates offered by CLP vis-à-vis the total rate of deflation over the past six years.

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36. Given that HEC had decided to defer the Lamma extension project to 2006, Mr Fred LI considered that HEC could lower its tariff or offer rebate to its customers due to its deferred capital investment.

37. Mr K S TSO, Group Managing Director of HEC stressed that HEC had a difficult year in 2003. In addition to a tariff freeze, electricity sales in 2003 were far below the forecast due largely to the effect of SARS and the consequent general slowdown in the economy. The increase in tax rate and the new accounting approach involving deferred tax had also resulted in HEC bearing extra cost. He cautioned that the impact of inadequate electricity sales and tax would have a knock-on effect in 2004. As HEC had almost exhausted its DF, it was already very difficult for the Company to offer a tariff freeze for another year, not to mention the request for further reduction in tariff. As regards the rate of permitted return, Mr TSO said that with a reduction in manpower resources and an increase in electricity sales, HEC had improved its productivity in the past ten years by 81%. The capital expenditure committed during the financial plan period was about $27 billion. There were substantial savings the amount of which could not be disclosed in the meeting because they were market sensitive and could only be disclosed in the year 2003 annual report. Whether the permitted return could be met would hinge on the level of electricity sales.

38. On the level of rebate, Mrs Betty YUEN reiterated that including the latest rebate package, CLP would have rebated almost HK$3 billion to its customers over the years. The total rebate had helped bring down the electricity expenditure in the Consumer Price Index ‘A’ (CPI ‘A’) by 5%. She explained that the electricity industry was capital intensive with long return period and the cost was not in direct proportion with CPI 'A'. Appreciating that it took time for the economy of Hong Kong to recover, Mrs YUEN said that CLP would continue to act in the best interest of the community and share the benefits with its customers. On the rate of return of the company, Mrs YUEN further said that in a capital-intensive industry, the costs of CLP included imported materials, services and fuels which were not directly linked to local CPI 'A'. The company would endeavour to achieve a win-win situation by rendering its shareholders a reasonable rate of return whilst maintaining a stable supply of electricity to its customers at reasonable cost.

39. Noting that the balance of CLP's DF was still in a substantially high level even after it had offered rebate to its customers, Mr Fred LI considered that CLP should lower the basic tariff rather than offering piecemeal rebates. After all, monies in DF were extracted from its customers.

40. Mrs Betty YUEN pointed out that the DF was stipulated to be used to help fund the company's capital expenditure as well as smooth out tariff fluctuations to ensure long-term tariff stability. Indeed, the DF was highly vulnerable to sales fluctuations, which might occur as a result of a variety of external factors. Accordingly, CLP had exercised prudent management over the past years to ensure that the balance of the DF stood at a consistently stable and healthy level. The

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results were evidenced by the fact that CLP had frozen the tariff since 1998 and exercised appropriate discretion to use the DF to fund rebates. At present, CLP's annual turnover amounted to some $27 billion and it was reasonable for CLP to maintain a balance of about $3 billion in the DF. She said that the long-term stability over electricity tariffs was highly important to customers and CLP would work to the best interests of the community at large.

41. Unconvinced of CLP's response , Mr Fred LI pointed out that unlike the situation in 1994 to 1998 when Hong Kong recorded a positive growth in Gross Domestic Product and inflation, Hong Kong was now suffering from persistent deflation and the economy had yet to be recovered. As such, there was no reason to keep a great surplus in the DF, not to mention the promising electricity sales to the Mainland. Mr LI therefore urged CLP, as a responsible public utility, to lower its tariff.

42. Mrs Betty YUEN said that whilst earnings from the electricity businesses in the Mainland recorded strong growth mainly due to substantial increase in electricity sales, there was no guarantee at all. She explained that the existing power plants in Hong Kong were already operating at capacity, there was not much room to increase the sales to the Mainland, not to mention the fact that the current power purchase agreements with the Mainland were merely short-term in nature. With the rapid development in power plants in other parts of the Mainland, power purchase from the Mainland might be reduced.

43. SEDL confirmed that the Administration had urged CLP to lower their tariff instead of freezing them. He said that the Administration had conducted a tariff review jointly with each power company according to the relevant provisions stipulated under the Scheme of Control Agreements. Whilst appreciating the general expectation of the public for a low tariff, the Administration and the two power companies had made their best efforts to freeze them. He remarked that as the level of productivity, cost and mode of operation between the two power companies were different, there was a difference in the outcome of the review. He anticipated that there would be an impact on the tariff gap between the two power companies if the arrangement for the post-2008 electricity supply market were revised.

Fuel clause rebate

44. Noting that the HEC's Fuel Clause Rebate might be adjusted in order to reflect the actual fuel cost incurred during 2004, Mr LI was worried that HEC might use this as a tool to increase its tariff at a later stage. Mr Andrew HUNTER confirmed that a change to the Fuel Clause Rebate was not meant to increase its tariff. The company would only adjust the rebate to reflect the actual fuel cost incurred during 2004. Adjustment to Fuel Clause Rebate, if any, would take no retrospective effect.

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45. Mr Kenneth TING enquired about the likelihood of a subsequent change to the Fuel Clause Rebate in 2004. Mr K S TSO replied that substantial advance orders had already been placed. However, it should be noted that the contracted suppliers might fail to deliver the fuel according to contract terms due to various reasons such as coal mine accidents or domestic over-consumption. He however was confident that even if there were adjustment, the magnitude would be minimal.

Development Fund

46. Mr Abraham SHEK was concerned about the timing of which CLP would return all monies in DF to its customers. As a matter of principle, he saw no reason for CLP to make use of customers' monies in the DF to conduct its own business.

47. Mrs Betty YUEN said that CLP had always acted in the best interest of its customers. The success in prudent cost control and DF management had enabled CLP stabilize its tariff. CLP's financial position remained sound and healthy, which was due largely to the Company's efforts in cost reduction and a company-wide productivity enhancement programme such that CLP could freeze its tariff since 1998. Further, CLP's shareholders pay their customers an interest of 8% per annum on the average DF balance. SEDL highlighted that as agreed during the 2003 interim review, CLP and the Government would have specific discussions with regard to arrangements to deal with any balance in the DF, and the related Rate Reduction Reserve account, twelve months before the expiry of the current Scheme of Control Agreement.

Post-2008 electricity market

48. Noting that HEC's tariff was 15.6% higher than that of CLP, Mr Fred LI was concerned that the tariff gap would have implication on the competition state of the post-2008 electricity market upon liberalization. Mr HUI Cheung-ching echoed Mr LI's view and opined that HEC should implement cost control measures in line with CLP to maintain its competitiveness.

49. Mr K S TSO responded that the gap was caused by the differences in capital expenditure and source of revenue between HEC and CLP. HEC’s generation facilities were located on an outlying island with additional capital and operating costs. Unlike the transmission network of CLP which mainly comprised overhead lines, the transmission network of HEC had to rely on submarine cables and underground cables which were relatively more costly to be constructed and maintained. Moreover, HEC’s load was mainly commercial while CLP had a better customer mix and could sell about 11% more in electricity for the same installed capacity. Also CLP had China sales and a much bigger electricity sales and hence was able to enjoy the economy of scale. The above benefits enjoyed by CLP resulted in its lower tariff.

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50. To pave way for the feasibility of separating electricity production and transmission upon liberalization of the post-2008 electricity market, Mr SIN Chung-kai urged the power companies to provide separate information on the cost data of electricity production and transmission.

51. While it might be feasible to separate the asset cost in electricity production and transmission, Mr K S TSO said that it might not be easy to separate overhead cost for each area and HEC would examine the issue in due course. Mrs Betty YUEN shared his view that CLP was in a similar circumstance.

52. SEDL appreciated the co-operation of the two power companies in agreeing, during the 2003 interim review, to segregate and present cost data pertaining to generation, and transmission and distribution (T&D) systems in the Financial Review and Auditing Review for the Government's consideration starting from 2004. This would assist the Administration in the post-2008 review to consider options for the generation and T&D.

VIII Any other business

53. There being no other business, the meeting ended at 4:50 pm.

Council Business Division 1
Legislative Council Secretariat
14 January 2004