立法會
Legislative Council

LC Paper No. CB(1)716/04-05
(These minutes have been seen by the Administration)

Ref: CB1/PL/ES/1

Panel on Economic Services

Minutes of meeting
held on Thursday, 16 December 2004, at 4:00 pm
in Conference Room A of the Legislative Council Building

Members present	:	Hon James TIEN Pei-chun, GBS, JP (Chairman) Hon Abraham SHEK Lai-him, JP (Deputy Chairman) Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP Hon Fred LI Wah-ming, JP Dr Hon LUI Ming-wah, JP Hon CHAN Kam-lam, JP Hon Howard YOUNG, SBS, JP Hon LAU Chin-shek, JP Hon Miriam LAU Kin-yee, GBS, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon Ronny TONG Ka-wah, SC Hon CHIM Pui-chung Hon KWONG Chi-kin Hon TAM Heung-man
Members attending	:	Hon Martin LEE Chu-ming, SC, JP Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP Hon James TO Kun-sun Dr Hon YEUNG Sum Hon WONG Kwok-hing, MH Hon LEE Wing-tat
Members absent	:	Dr Hon David LI Kwok-po, GBS, JP Hon SIN Chung-kai, JP

Public Officers attending	:	**<u>Agenda item I</u>**

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Ms Miranda CHIU
Deputy Secretary for Economic Development and Labour (Economic Development)

Ms Brenda CHENG
Principal Assistant Secretary for Economic Development and Labour
(Economic Development)

Mr K C KWOK
Government Economist

<u>Agenda item V</u>

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Ms Miranda CHIU
Deputy Secretary for Economic Development and Labour (Economic Development)

Ms Brenda CHENG
Principal Assistant Secretary for Economic Development and Labour (Economic Development)

Attendance by invitation	:	**<u>Agenda item I</u>**

<u>ExxonMobil Hong Kong Limited</u>

Mr Brad MERKEL
Retail Sales Manager, S.E. Asia/HK/PRC
ExxonMobil Asia Pacific Pte. Ltd.

Mr SHEK Wai-ming
Retail Sales Manager, Hong Kong/Macau

Mr Douglas NEAGLI
General Counsel, Law Shared Services Centre

Ms Jane TANG
Public Affairs Manager, HK/South China

China Resources Petrochems (Group) Co. Ltd.

Mr DONG Qun-ke
Director, Vice-President

Ms Aegina LIU
Deputy Marketing Manager

Caltex Oil Hong Kong Limited

Mr YUEN Ming-kwong
General Manager
Retail, Commercial and Industrial
(HK & South China)

Mr HWANG Chung-wo, Daniel
General Manager
Area Marketing Support
(HK & South China)

Ms CHENG Oi-ling, Eunice
Manager
Policy, Government & Public Affairs

Shell Hong Kong Limited

Mr Andy KU
Director

Ms Angel MO
General Manager – External Affairs
(HK, Macau & Taiwan)

Agenda item V

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
Group Public Affairs Director

Clerk in attendance	:	Mr Andy LAU Chief Council Secretary (1)2
Staff in attendance	:	Ms Anita SIT Senior Council Secretary (1)9 Miss Winnie CHENG Legislative Assistant (1)5

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Session one (closed meeting)

I Retail prices of oil products

(LC Paper No. CB(1)460/04-05(01) - Submission from Caltex Oil Hong Kong Limited
LC Paper No. CB(1)439/04-05(01) - Information paper provided by the Administration
LC Paper No. CB(1)487/04-05 - Background brief on retail prices of oil products prepared by the Secretariat)

This session of the meeting was held in camera. Representatives of the following four oil companies attended the session in turn –

(a) ExxonMobil Hong Kong Limited;

(b) China Resources Petrochems (Group) Co. Ltd.;

(c) Caltex Oil Hong Kong Limited; and

(d) Shell Hong Kong Limited.

2. A written submission from ExxonMobil Hong Kong Limited was tabled at the meeting.

(*Post meeting note*: The submission was issued to members after the meeting under restricted cover vide LC Paper No. CB(1)570/04-05.)

3. The meeting with oil companies was followed by a brief discussion session with the Administration. The closed session ended at 6:15 pm.

II Confirmation of minutes and matters arising

(LC Paper No. CB(1)497/04-05 - Minutes of meeting held on 22 November 2004)

4. The minutes of the meeting held on 22 November 2004 were confirmed.

III Information papers issued since last meeting

(LC Paper No. CB(1)388/04-05(01) - Tables and graphs showing the import and retail prices of major oil products from November 2002 to October 2004 furnished by the Census and Statistics Department)

5. Members noted the information paper issued since last meeting.

IV Items for discussion at the next meeting scheduled for 24 January 2004

(LC Paper No. CB(1)496/04-05(01) - List of outstanding items for discussion
LC Paper No. CB(1)496/04-05(02) - List of follow-up actions)

6. Members agreed that the following items proposed by the Administration would be discussed at the next meeting scheduled for 24 January 2004-

(a) Funding proposal for the fitting out works for customs, immigration and quarantine facilities at SkyPlaza, Hong Kong International Airport; and

(b) Amendments to Carriage by Air Ordinance to apply the Montreal Convention.

7. The Chairman informed members that a special meeting would be held on 20 January 2005 from 4:40 pm to 5:40 pm to receive a briefing by the Secretary for Economic Development and Labour (SEDL) on the 2005 Policy Address.

8. The Chairman said that pursuant to the decisions at the relevant previous meetings, the Panel would hold two special meetings to follow up the issues relating to the following subject –

(a) Privatization of the Airport Authority; and

(b) Proposed domestic heliport development.

The Chairman also informed members that for item (b), members had previously agreed that the Panel would hold a joint meeting with the Panel on Planning, Lands and Works to discuss the item. Members agreed that the special meetings would be held on 31 January 2005 from 9:00 am to 1:00 pm.

V Proposed electricity tariff for 2005

Presentation by Hongkong Electric Co. Ltd.

9. Mr George C MAGNUS, Chairman of the Hongkong Electric Co. Ltd. (HEC) said that 2004 had been a very difficult year for HEC. The cost of coal had increased by over 100% during the year. This cost increase had been aggravated by a significant increase in shipping charges and the increase in Government rent and rates, the latter of which had resulted in an annual extra cost of $200 million. On the other hand, electricity sales growth had been lower than expected mainly due to the unusually cool weather experienced in the second half of the year. As a result of the tight control on the tariff level, particularly in 2003 and 2004, HEC's Development Fund had been exhausted, and so HEC could not use the Development Fund balance to moderate tariff increase on this occasion. In accordance with the Scheme of

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Control Agreement (SCA), HEC was entitled to a net tariff increase in the region of 13.4% with effect from 1 January 2005. Of this, about 10% was related to cost increases outside HEC's control. However, given the current economic climate, HEC's management board had decided to limit the increase of the average net tariff to 6.5% in order to help the ongoing economic recovery process in Hong Kong. In the absence of a credit balance in the Development Fund, this required a special rebate of 7.1 cents per unit for 2005 to be funded by HEC's shareholders. In dollar terms, this would amount to a shareholders' subsidy in excess of $700 million. When added to the shareholders' subsidies and waived permitted return in 2003 and 2004, it should be apparent that HEC's shareholders continuously made a substantial contribution to assist in the recovery of the Hong Kong economy. As a socially responsible public utility company, HEC was mindful of the less fortunate groups in the community, and so the special concessionary discount on tariff for the elderly, disabled, single parents and unemployed would be increased from 50% to 60%, which would shelter them not only from the tariff increase but actually reduce their tariff payments. For 71% of HEC's domestic customers using 500 units or less monthly, the tariff increase in dollar terms would be less than $13.5 a month. For 70% of HEC's commercial customers using 1 700 units or less monthly, the increase would be less than $136 a month. Mr MAGNUS emphasized that the 6.5% increase in average net tariff would only recover part of the increase in coal costs, freight charges and Government rent and rates, all of which were outside HEC's control.

10. With the aid of PowerPoint, Mr Andrew J HUNTER, Group Finance Director of HEC explained the charts showing the following-

(a) HEC's 2005 tariff entitlement (an increase of 13.4% in average net tariff) in accordance with the SCA;

(b) the proposed 2005 tariff (an increase of 4.4% for domestic customers and an increase of 6.9% for non-domestic customers which together resulted in a 6.5% increase in average net tariff) after the special rebate of some $700 million funded by HEC's shareholders;

(c) the 10.1% increase in entitled tariff attributed to various factors (coal price, Government rent and rates, profits tax and the full depletion of the Development Fund) which were outside HEC's control;

(d) effect of the tariff increase on domestic and non-domestic customers in dollar terms; and

(e) improvement to the concessionary tariff scheme for eligible customers.

HEC's proposed adjustments to the individual tariff components for 2005 were as follows-

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Tariff components (cents/kWh)	Current	Effective 1 January 2005
Average Basic Tariff	108.5	114.9
Fuel Clause Surcharge/(Rebate)	(4.1)	2.2
Special Rebate	(1.0)	(7.1)
Rate Reduction Rebate	(0.1)	-
Average Net Tariff	103.3	110.0

11. Mr Andrew J HUNTER stressed that this was the first basic tariff increase of HEC since January 2002. HEC had not been earning up to the permitted rate of return in two consecutive years, i.e. 2003 and 2004. The proposed 6.5% increase in average net tariff for 2005 was insufficient to cover the uncontrollable cost increases faced by HEC and the reduced level of increase in net tariff was enabled by the contribution of more than $700 million from HEC shareholders.

Presentation by CLP Power

12. Mrs Betty YUEN, Managing Director of CLP Power gave a PowerPoint presentation on the proposed tariff adjustment of CLP for the year 2005. She said that CLP would freeze its tariff for the seventh consecutive year in 2005. Apart from maintaining a stable tariff, CLP had achieved world class standard in electricity supply with substantial improvement in the reliability over the past seven years. On the other hand, CLP had been facing increasing pressure on its operations. International coal prices had doubled since mid-2003. The electricity sales growth in 2004 was lower than expected due to the cooler weather in the year. The proposed adjustments to the individual tariff components for 2005 were as follows-

Tariff Level (cents/unit)	Current	Effective 1 January 2005
Average Basic Tariff	88.4	88.4
Fuel Clause Charge/(Rebate)	(0.3)	0.2
Scheme of Control Rebate	(0.6)	(1.1)
Average Net Tariff	87.5	87.5

In summary, CLP had contributed to Hong Kong's economic growth by delivering highly reliable electricity supply at reasonable cost. CLP had been able to freeze its tariff for seven consecutive years due to its prudent financial management, fuel diversification strategy and continued productivity improvement. CLP would continue to act responsibly to maintain its tariff at a reasonable and stable level.

(*Post-meeting note*: The presentation materials provided by HEC and CLP were issued to members vide LC Paper No. CB(1)539/04-05 on 20 December 2004.)

Discussion with Members

13. The Chairman drew members' attention that Mr CHAN Kam-lam had proposed a motion in relation to the agenda item and the wording of the motion had been tabled before members. He said that he would deal with the motion towards the end of this discussion session.

The proposed tariff adjustments for 2005

14. Mr LAU Chin-shek said that a majority of the general public had not yet benefited from the recovery of the local economy; the unemployment rate still stood at 6.7%. The 6.5% increase of average net tariff by HEC and the cancellation of tariff rebate by CLP, which in effect was a tariff increase, would have significant financial impact on the general public. Highlighting that HEC and CLP were earning huge profits over the past years, he questioned whether the two power companies had given due consideration to the financial impact of their proposed tariff adjustments on the consuming public and the impact on the general economy. He also asked whether the companies would withdraw their tariff adjustment proposals for reconsideration if Legislative Council Members unanimously objected to the proposals.

15. Mr YEUNG Sum said that he had to strongly reprimand HEC for increasing its tariff when the company had already been earning huge profits. He highlighted that as the local economy only started to recover and the unemployment rate still stood at 6.7%, the tariff increase would adversely impact on the economy and add to the financial burden of the lower income groups. He considered it ridiculous that a public utility company could enjoy a permitted return at such a high level as 13.5% under the present-day circumstances. He enquired what level of tariff increase had been initially proposed by HEC and when the SCA could be changed. He also expressed grave concern that the average net tariff of HEC was 20% higher than that of CLP after the tariff adjustments.

16. Mr WONG Kwok-hing expressed strong discontent with the tariff adjustments made by the two companies, which he considered would add to the financial burden of local employees and impede the recovery of the local economy. He criticized HEC for ignoring its social responsibility by increasing tariff notwithstanding the huge profits earned over the past years. He said that the public was furious to note that the Administration could do little to avert the tariff increase. He asked why HEC's Development Fund had been exhausted, and what the Administration would do to rectify the ludicrous situation of the local electricity market.

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17. Mr George C MAGNUS stressed that HEC was bound by the SCA and it was incumbent upon HEC's management to pursue its rights under the SCA. For 2005, HEC shareholders were actually giving a subsidy of more than $700 million to HEC's customers. Regarding the Development Fund of HEC, Mr K S TSO, Group Managing Director of HEC explained that the full depletion of the Development Fund was due to the freeze of HEC's net tariffs in 2003 and 2004. He also advised that HEC had not attained the 13.5% permitted rate of return in 2003 and 2004. For 2005, as HEC shareholders would provide a subsidy of some $700 million to alleviate the pressure on tariff, HEC again would not attain the 13.5% permitted rate of return.

18. Mrs Betty YUEN said that CLP all along had endeavoured to balance the interests of shareholders and customers, and to reduce costs to achieve a win-win situation. Over the past years, CLP had offered tariff rebates to customers amounting to $3 billion in total. In the past year and for the foreseeable, CLP's operations had been and would continue to be subject to great pressure, mainly due to the volatility of operating costs. The annual operating revenue of CLP was around $27 billion. Expenditure on fuels amounted to $3 billion. Hence, the volatility of fuel costs had significant impact on CLP's operations. To minimize the impact on customers, CLP had decided to freeze the tariff for the seventh consecutive year. She expressed disagreement that the absence of a tariff rebate in 2005 was a tariff increase in effect. CLP had been able to provide tariff rebates in the past mainly because CLP had done a lot to achieve cost savings. She appealed to the understanding of Members and the general public that CLP had made its best endeavour in making it possible to continue to freeze the tariff in 2005.

19. SEDL advised that the tariff increase initially proposed by HEC was higher than 6.5%, and it was a double digit percentage increase. The Administration fully appreciated that the general public would not welcome such substantial tariff increase. Hence, the Administration and HEC had put in strenuous efforts into lowering the tariff increase in order to reduce the impact on consumers. He remarked that some increases such as the fuel cost increase were beyond the control of HEC, and the SCA stipulated that tariff adjustment should take into account fluctuations in fuel cost. As regards the permitted rate of return under the SCAs, he said that if the SCAs were entered into nowadays, it was unlikely that the power companies would be allowed a rate as high as 13.5%. However, the reality was the current SCAs were entered into some 12 years ago. Hong Kong must uphold the spirit of contract and the Government must abide by the terms of the SCAs. The current SCAs were due to expire in 2008. The Administration was undertaking a comprehensive electricity market review and planned to issue a consultation paper in one to two months on the future development of the electricity market. Various fundamental issues would be covered in the consultation exercise, including contractual arrangements, if any, with the power companies; duration of the contracts; regulation or otherwise over the profits of the power companies; tariff adjustment mechanism etc.

20. Mr CHENG Kar-foo said that he had a strong feeling that the two power companies were trying to earn as much as possible before the expiry of the SCAs. Given the huge profits earned over past years, the proposed tariff adjustments were

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unacceptable especially for HEC's consumers. Citing the recent remark by the Chief Executive of MTR Corporation Limited that electricity charges accounted for 15-20% of the corporation's operating expenses, he highlighted that the increase in electricity tariff would induce the increase of MTR fares and the charges/prices of other sectors affecting people's livelihood. He also sought explanation on the gap between the average net tariffs of the two companies.

21. Mr Fred LI said that the tariff adjustments on this occasion reflected the problems with the SCAs, under which the consuming public were put at the mercy of the power companies' quest for an unreasonably high level of profits. The public, in particular those residing on the Hong Kong Island, felt helpless and disappointed towards the tariff adjustments made by the power companies. To reflect the public's sentiment, 23 Legislative Council Members had signed a joint statement on 15 December 2004 expressing objection to HEC's proposed tariff increase and CLP's cancellation of tariff rebate. He enquired about HEC's actual rate of return for the years 2003 and 2004 and the projected return for 2005. He also cautioned that HEC's apathy to the hardship of the general public would adversely affect its corporate image and this in turn, might adversely affect its negotiating position under the new regulatory regime for the post-2008 electricity market. As regards CLP, he highlighted that although CLP had frozen its tariff since 1998, it had attained the 13.5% permitted rate of return throughout the years, and it's Development Fund balance stood at $2.5 billion. Also, coal only accounted for 40% of the fuels used by CLP for electricity generation. Given the favourable financial position of CLP, he queried why CLP did not continue to offer tariff rebate in 2005 and asked CLP to seriously reconsider the offer of tariff rebate.

22. Mr Andrew J HUNTER and Mr K S TSO advised that HEC's profit for 2003 was $228 million, or 4%, short of its level of profit as permitted under the SCA. The shortfall in 2004 was much greater, and would be disclosed in the company's 2004 annual report to be released in March 2005. For 2005, the projected shortfall was $700 million.

23. In reply to Mr Ronny TONG's enquiry, Mr K S TSO advised that the projected rate of return for HEC for 2005 based on the tariff adjustment presently proposed was 12% as compared to the permitted rate of return of 13.5%. Mrs Betty YUEN advised that the projected rate of return of CLP for both 2004 and 2005 was about 12%. She also highlighted that under the SCA, CLP shareholders were required to pay their customers an interest of 8% per annum on the average Development Fund balance.

24. Mrs Betty YUEN further said that whilst CLP had been able reduce the impact of surging coal prices on its operations by adopting a fuel diversification strategy, it should be noted that the price of natural gas, which together with coal and nuclear were the three types of fuels used by CLP, was affected by the prices of other fuels including coal. As regards CLP's Development Fund, Mrs YUEN said that over the years, CLP's strategy was to ensure that the balance of the Development Fund could effectively help stabilizing electricity tariff.

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25. As regards the tariff difference between CLP and HEC, Mr Andrew J HUNTER explained that the difference was attributed to the fact that the two companies were operating under different markets and operating circumstances. CLP and HEC were not directly comparable; the companies were vastly different in generation capacity, configurations of generating plants and equipment, customer mix and load profile. He stressed that the tariff was calculated in accordance with the SCA, a document itself designed with the objective of ensuring reliable supply of electricity at reasonable cost for consumers and reasonable return for shareholders, thus balancing the interests of consumers and shareholders. Consumers were protected by the SCA, which imposed onerous obligations on HEC such that it was necessary for HEC to continue to make substantial investments to provide consumers with reliable electricity supply.

26. Mr Martin LEE expressed disagreement with Mr Andrew J HUNTER that consumers were protected by the SCA. To the contrary, he considered that consumers were exploited under the SCA. He also said that there had been criticisms of the SCAs from time to time. Back to 1993, LegCo Members had already requested the Administration to modify the terms of the SCAs for consumer benefits but the SCAs were renewed without major modifications. He considered that the Administration should give a strong signal to the power companies that their commitment or otherwise to the well-being of the consuming public would directly affect their negotiating position under the post-2008 electricity regulatory regime.

27. SEDL reiterated that in the past two weeks, the Administration and the two power companies had worked very hard together with a view to reducing the magnitude of the tariff adjustments. He acknowledged that the Administration was bound by the relevant stipulations in the SCAs.

28. Mr Howard YOUNG said that the tariff increase by HEC and the cancellation of tariff rebate by CLP were unacceptable. He pointed out that a 6.5% increase in tariff would have significant impact on the consuming public given the current economic conditions. Mr YOUNG also questioned the propriety of including the increase in profits tax as a justification for the tariff increase.

29. Mr George C MAGNUS said that under the SCA, tax and Government rent and rates formed part of the tariff calculations. In terms of the impact on Hong Kong's cost of living, HEC's tariff increase would bring up the Consumer Price Index by 0.03%.

30. In reply to Mr Howard YOUNG's further enquiry, Mr K S TSO said that with the 4.4% increase in HEC's net tariff for domestic customers, 71% of its domestic customers would be subject to a monthly increase of $13.45 or less per month, and the $13.45 increase represented a 3% increase in tariff for a domestic consumer whose monthly consumption was about 500 units.

31. Mr Abraham SHEK said that while both the two power companies had frozen their tariffs in 2003 and 2004, the tariffs of some other public utilities such as towngas

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had increased significantly during the same period. He commented that the two power companies were listed companies and the managements were responsible to their shareholders. The Government should honour the SCAs signed with the two power companies which were legally binding contracts.

32. In reply to Mr Abraham SHEK's enquiry about the 2.1% increase in HEC's tariff attributed to Government rent and rates, the Deputy Secretary for Economic Development and Labour (Economic Development) (DS/EDL(ED)) advised that same as all other private properties in Hong Kong, HEC's properties in Hong Kong were subject to annual adjustment with regard to Government rent and rates. The increase in Government rent and rates referred to by HEC was the increase effective from 1 April 2004. In reply to Mr SHEK's enquiry about HEC's provision of concessionary tariff discount for customers eligible for public assistance, Mr K S TSO advised that in the past, HEC's shareholders had contributed about $3 million each year for the provision of the concessionary tariff discount. With the increase of the tariff concessionary discount from 50% to 60% in 2005, HEC's shareholders would contribute $4 million in 2005 for the purpose. He added that HEC's Concessionary Tariff Scheme had been funded by shareholders.

33. In reply to Mr Abraham SHEK's enquiry on whether the profit from CLP's electricity sales to the Mainland would be transferred to the Development Fund, Mrs Betty YUEN advised that 80% of the profit so generated would be transferred to the Development Fund and the profit amounted to a few hundred million dollars each year. Mrs YUEN remarked that one of the reasons that CLP could continue to freeze its tariff was that CLP's shareholders paid their customers an interest of 8% per annum on the average Development Fund balance. The existing balance of the Development Fund was about one month's operating revenue of CLP.

Electricity sales growth and the proposed tariff adjustments

34. Mr CHAN Kam-lam expressed dissatisfaction with HEC's tariff increase and CLP's cancellation of tariff rebate in 2005. He highlighted that the tariff adjustments had particularly high impact on those consumers/enterprises which had high levels of electricity consumption. Hence, the tariff adjustments would definitely impact on the local business environment. He understood that there had been continuous growth in customer base for both companies and asked whether the increase in revenue due to customer base and sales growth had been duly taken into account in determining the tariff for 2005.

35. Mrs Betty YUEN said that the electricity sales of CLP for the period from January to November 2004 had increased by 1.9% over the same period in 2003. In the previous years, the year-on-year increase was 2% to 3% on average. Acknowledging that CLP's turnover had been on the increase, she pointed out that the operating costs had also increased due to the need to generate more electricity and there had been continuous capital investments in the past years on new facilities and replacement of existing facilities.

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36. Mr Andrew J HUNTER said that HEC's electricity sales in 2003 were disappointing and there had been only modest sales growth in 2004. The trend growth in the previous years was similar to CLP at 2% to 3%. To ensure reliable supply of electricity, there was a need to make regular investments on generation and transmission-related facilities. In this respect, HEC had not earned and could not earn more than the permitted return under the SCA. If the profit exceeded the permitted return, the excess would be transferred to the Development Fund. So there was no question that HEC had enjoyed excessive benefits arising from the increase in electricity sales growth.

Future tariff adjustments before the expiry of the SCA

37. Mr Ronny TONG asked whether the Administration had the needed clout to enable it to negotiate with the two power companies for reasonable tariff adjustments before the expiry of the SCA in 2008.

38. SEDL said that although the SCAs were due to expire in 2008, the Administration would decide on the way forward well before the expiry. The Administration had already conducted various relevant studies, including the technical study on increasing interconnection between the two power companies, the feasibility of separating electricity generation and transmission etc. in the post-2008 electricity market. The Administration would issue a consultation paper on the future development of the local electricity market in one to two months. The consultation paper would set out various options for the way forward. He remarked that all these matters should have important bearing on the future business of the two power companies.

39. In reply to Mr Ronny TONG's question on whether the Administration would and could introduce more competition into the electricity market, SEDL affirmed the Administration's intention to introduce competition into the post-2008 electricity market. He said that although Guangdong was buying electricity from Hong Kong at present, substantial investment had been made in electricity generation infrastructure in the Mainland. Excess supply of electricity in the Mainland might, with enhancement of relevant infrastructure, be transmitted for supply to Hong Kong in the future.

Diversification of fuels

40. Ir Dr Raymond HO declared interest that he was the Deputy Chairman of Guangdong Daya Bay Nuclear Plant and Lingao Nuclear Plant Safety Consultative Committee. He enquired about the respective strategies of the two companies on diversification of fuels, and what the Administration had done in this respect.

41. Mrs Betty YUEN said that since the 1990s, CLP had been implementing a fuel diversification strategy. Currently, one-third of the fuels used by CLP for electricity generation was nuclear, one-third coal and the other one-third natural gas. The strategy was conducive to CLP's risk management and cost control. Also from the

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environmental perspective, natural gas and nuclear were cleaner than coal. In the past 10 years, the emission of pollutants by CLP's power generation plants had dropped by 50% although electricity sales had increased by 65% over the same period. CLP would maintain the strategy and was inclined to increase the use of natural gas. To this end, CLP needed to identify new sources of supply of natural gas for the next 10 years, so that new sources of supply were secured before the full depletion of the existing natural gas fields. CLP was working with the relevant Government bureaux/departments in this regard.

42. Mr K S TSO advised that HEC procured its fuel, coal, through a competitive tendering process and HEC tended to sign long-term contracts with its suppliers. HEC would start to use natural gas in 2006, and from 2006 onwards, all the new power generation plants of HEC would use natural gas as fuel.

43. DS/EDL(ED) advised that the main objective of the Government on electricity supply was to maintain reliable supply at reasonable prices. Fuel diversification was a means to achieve the objective. Apart from CLP's fuel diversification strategy and HEC's undertaking to start using natural gas in 2006, the two power companies had agreed during the 2003 Interim Review of the SCAs to conduct a pilot scheme on using wind energy, a type of renewable energy, for power generation. The two power companies would each study and then set up a production-scale wind turbine so that the public could gain a first-hand understanding of the benefits and limitations of wind power generation and judge the practicality and scope of developing wind farms in Hong Kong.

Motion

44. At this juncture, the Chairman referred to the motion moved by Mr CHAN Kam-lam. The wording of the motion was as follows-

> 『本會強烈反對中電及港燈於 2005 年分別停止回贈及增加電費；並促請政府盡快就 2008 年兩電的利潤管制協議展開諮詢工作。』

The Chairman said that according to the relevant House Rule, the motion would be proceeded with if agreed by a majority of the members voting. He put the question on whether the motion should be proceeded with to vote. As a majority of the members voting voted for the question, the Chairman said that he would proceed with the motion. In reply to the Chairman, Mr KWONG Chi-kin indicated that he seconded the motion.

45. Mr Fred LI then proposed amendments to add "及譴責" after "反對" and to replace the phrase "兩電的利潤管制協議" by "電力市場的發展". The motion moved by Mr CHAN Kam-lam as amended by Mr Fred LI read as follow –

> 『本會強烈反對及譴責中電及港燈於 2005 年分別停止回贈及增加電費；並促請政府盡快就 2008 年電力市場的發展展開諮詢工作。』

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English Translation

"That this Panel strongly opposes to and condemns the respective proposals of CLP Power Hong Kong Limited and Hong Kong Electric Co. Ltd. to stop offering tariff rebates and raise electricity tariff in 2005; and urges the Government to expeditiously launch a consultation exercise on the development of the electricity market in 2008."

46. Mr Fred LI explained that as the two power companies had indicated that they would effect their tariff adjustments notwithstanding the objection by members, there was a need to express members' strong disapproval of the tariff adjustments in the form of a reprimand against the power companies. As regards the second amendment, he explained the Mr CHAN's motion seemed to presume that the regulatory regime to be put in place for the post-2008 electricity market would be in the form of SCAs. He therefore considered it necessary to refine the wording. In reply to the Chairman, Mr KWONG Chi-kin indicated that he seconded the amendments moved by Mr Fred LI.

47. The Chairman put the motion moved by Mr CHAN Kam-lam as amended by Mr Fred LI to vote. As a majority of the members voted for the amended motion, the Chairman declared that the amended motion was passed.

VI Any other business

48. There being no other business, the meeting ended at 7:45 pm.

Council Business Division 1
Legislative Council Secretariat
21 January 2005