

立法會
Legislative Council

LC Paper No. CB(1)1226/04-05
(These minutes have been seen
by the Administration)

Ref: CB1/PL/ES/1

Panel on Economic Services

**Minutes of meeting held on
Monday, 28 February 2005, at 10:45 am
in the Chamber 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 SIN Chung-kai, JP
Hon Howard YOUNG, SBS, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon KWONG Chi-kin
Hon TAM Heung-man
- Members attending** : Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon WONG Kwok-hing, MH
- Members absent** : Dr Hon David LI Kwok-po, GBS, JP
Hon CHAN Kam-lam, JP
Hon LAU Chin-shek, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS

**Public Officers
attending**

: Agenda item IV

Mr Stephen IP
Secretary for Economic Development and Labour

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

Ms Eva CHENG
Commissioner for Tourism

Miss Patricia SO
Assistant Commissioner for Tourism

Mr LAY Chik-chuen
Assistant Director (Conservation)
Agriculture, Fisheries and Conservation Department

Mr Andrew Hall LEWIS
Senior Landscape Architect
Architectural Services Department

Agenda item V

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)

Mr Harry LAI
Chief Electricity and Mechanical Engineer
(Electricity Team)

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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I Confirmation of minutes and matters arising

- (LC Paper No. CB(1)932/04-05 - Minutes of special meeting held on 20 January 2005
- LC Paper No. CB(1)905/04-05 - Minutes of meeting held on 24 January 2005)

The minutes of the meetings held on 20 January 2005 and 24 January 2005 were confirmed.

II Information papers issued since last meeting

- (LC Paper No. CB(1)844/04-05(01) - Tables and graphs showing the import and retail prices of major oil products from January 2003 to December 2004 furnished by the Census and Statistics Department
- LC Paper No. CB(1)867/04-05(01) - Submission from Tiglion Travel Services Company Limited on regulatory framework of travel agents in Hong Kong)

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

III Items for discussion at the next meeting scheduled for 16 March 2005

- (LC Paper No. CB(1)966/04-05(01) - List of outstanding items for discussion
- LC Paper No. CB(1)966/04-05(02) - List of follow-up actions)

3. Members agreed that the following items proposed by the Administration would be discussed at the next meeting scheduled for 16 March 2005-

- (a) Progress update on Hong Kong Disneyland;
- (b) Amendment to the Civil Aviation Ordinance to release certain aircraft owners from strict liability; and
- (c) Public Cargo Working Area berths allocation arrangement.

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Visit to Hong Kong Disneyland

4. The Chairman said that the Administration would like to invite Panel members to conduct a visit to Hong Kong Disneyland (HKD) some time in April 2005 to understand the progress of the HKD project and the preparatory work for the opening of the theme park.

5. Ms Miriam LAU said that she would join the visit as far as possible. She suggested that the Administration be asked to provide a paper setting out the overall transport plan for HKD. In this connection, the Clerk informed members that the Administration had recently provided an information paper on the traffic and public transport service arrangements for HKD for the Panel on Transport. The Panel on Transport had not scheduled this subject for discussion. Ms LAU said that apart from the public transport service plan, she was also concerned about the traffic management scheme, road network connections etc. and considered that the Administration should provide comprehensive information on these aspects if it had not.

6. Ms Miriam LAU suggested that if feasible, she would like to see the progress of the Penny's Bay Rail Link and take a trial ride on the rail link. The Chairman said that if the rail link was not yet ready for a ride by members on this occasion, the Panel could arrange another visit during the soft opening of HKD in August 2005 and by then, the rail link should be ready for a trial ride.

7. The Chairman asked the Clerk to identify two possible dates for members to indicate their availability for the visit. He would then decide on the date of the visit.

Visit to Cathay City at Chek Lap Kok

8. The Chairman referred to an email from Cathay Pacific Airways (CX) to the Clerk inviting the Panel to pay a visit to Cathay City at Chek Lap Kok. The email was tabled at the meeting for members' reference.

9. The Chairman, Ms Miriam LAU, Mr Howard YOUNG and Mr Jeffrey LAM were of the view that the full-day visit programme proposed by Cathay Pacific Airways (CX) should be shortened and customised to suit members' interests.

10. In response to Mr Ronny TONG's question about the purpose of the visit and how such related to the work of the Panel, Mr Howard YOUNG said that in light of some reported aircraft occurrences in recent months, some members might be interested in the aircraft safety aspects and the programme could be customized to focus on these aspects. Mr Jeffrey LAM concurred with Mr YOUNG that the recent aircraft occurrences had aroused public concern over the aircraft safety issues. He further said that the visit would provide an opportunity for members to better understand the operations of CX, being a local airline, and the airport, and the Panel could take the opportunity to understand the views of CX on the proposed privatization of the Airport Authority. Ir Dr Raymond HO considered that members could benefit from the visit by obtaining first-hand information on aviation related

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matters.

11. Referring to the programme suggested by CX, Ms Miriam LAU said that some suggested activities such as the visit to Cathay Pacific Catering Services and corporate presentation on the company could be shortened or done away with.

12. The Chairman asked the Clerk to liaise with CX to work out a revised half-day visit programme taking into account members' views and concerns expressed at this meeting and other occasions such as Members' questions at Council meetings.

IV Progress of the Hong Kong Wetland Park Project and amendments to subsidiary legislation under the Country Parks Ordinance

(LC Paper No. CB(1)966/04-05(03) - Information paper provided by the Administration)

LC Paper No. CB(1)1000/04-05(01) - Powerpoint presentation provided by the Administration)

13. With the aid of Powerpoint, the Assistant Director of the Agriculture, Fisheries and Conservation Department (Conservation) (AD/AFCD) briefed members on the progress of the Phase 2 construction works of the Hong Kong Wetland Park (HKWP) Project, the main ecological features and visitor facilities in the Park, the proposed admission fees and parking fees for the Park and the proposed legislative amendments. The relevant details are set out in the information paper and presentation notes provided by the Administration.

14. Noting that Phase 1 of the Project had already been completed in 2000, the Chairman queried why the Administration had not put up the proposed legislative amendments to the Panel at an earlier time. In reply, the Commissioner for Tourism (C for T) explained that the Phase 2 construction works of the HKWP Project had been discussed by this Panel on 25 February 2002. The Finance Committee had approved funding for the Phase 2 construction works on 26 April 2002. The amendments were technical in nature and were aimed to specify the HKWP as a "Special Area" under the Special Areas (Designation) (Consolidation) Order, to empower the Director of Agriculture, Fisheries and Conservation to determine the operational matters of the park and to prescribe the admission fees and car-parking fees for the park.

15. Noting that the Government would appoint, through a tender exercise, a single contractor to take up the future operation, management and promotion of the HKWP and highlighting that habitat and wildlife management required highly specialized knowledge and skills, Mr WONG Kwok-hing enquired about the duration of the service contract and the measures to ensure that the services delivered by the contractor would meet the required standards.

16. In reply, AD/AFCD(C) said that the contractor was expected to take up the full range of required services including exhibit planning and management, facilities management and day-to-day operation, habitat and wildlife management, marketing

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and education. The length of the service contract was five years. As regards how to ensure the performance of the contractor, AD/AFCD explained that the contractor should comply with the service requirements as laid down by the Administration in the tender document and the subsequent service contract. For example, the variety of plant species, the biodiversity and the quality of water in the wetland reserve should be maintained at a certain level as specified in the tender document. The contractor would receive a lump-sum fee for its work and the revenue from the admission fees of the park would be returned to the Government. However, as an incentive for the contractor, a performance bonus would be given to the contractor if it could satisfy certain specified performance standards.

17. In view of the high unemployment rate of the population in North West New Territories, Mr WONG Kwok-hing suggested that the Administration explore opportunities brought about by the HKWP Project to boost the economic activities in the region and solicit views of the local community in this respect. C for T concurred with Mr WONG that the concerns and views of the local community should be taken into account in drawing up the operational plans for the HKWP. She said that the Administration would arrange a site visit to HKWP for members of Yuen Long District Council and would solicit the cooperation from the local community to make the Project a success.

18. While welcoming the proposed concessionary packages for tour groups and family visitors, Mr Howard YOUNG suggested that instead of charging uniform admission fees on weekdays and weekends/holidays, the Administration should consider charging lower admission fees on weekdays to boost the patronage during weekdays and to reduce the pressure of heavy patronage during weekends and holidays. In reply to his enquiry about the level of Government subsidy for HKWP to cover the park's operating costs, C for T advised that the estimated level of Government subsidy was 80%, whilst she understood that the subsidy rate for other public cultural and leisure facilities such as museums was around 90%. Noting that the subsidy for HKWP was percentage points lower, Mr YOUNG opined that there was room to reduce the admission fees of HKWP on weekdays. In response, C for T said that the proposed admission fees were determined based on the marketing study on the HKWP Project carried out in 2002. The Administration would keep track of the number of visitors to HKWP and review the admission fees in due course. The Chairman remarked that as the marketing study was conducted in 2002, more updated information might be required to project the patronage of the Park in reviewing the appropriate level of admission fees.

19. Mr Ronny TONG expressed grave concern about the conflicting policy objectives of promoting tourism vis-à-vis enhancing the conservation value of HKWP. He enquired about the measures to be put in place to preserve the ecology of the Park. In reply, AD/AFCD(C) advised that the maximum capacity would be 4 000 visitors and there would be control on the visitor number. The visitor facilities in HKWP had been carefully designed to contain the adverse effect of human presence to the ecological environment of the Park. It was estimated that most visitors would be staying at the visitor centre and the wetland discovery centre, which were located at

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the outer area of the wetland reserve with constructed wetlands and re-created habitats. The number of guided tours to the wetland reserve would be controlled. For bird watchers, there would be three bird-watching hides at the waterside overlooking Deep Bay, fishponds and mudflat. Earth mounding, screens and/or vegetation would be utilized along the pathways to reduce disturbance to birds and other wildlife in the Park. AD/AFCD(C) said that the above measures were common practices being adopted by similar facilities overseas.

20. As regards the relationship between HKWP and the Mai Po Nature Reserve (MPNR), C for T explained that HKWP would be developed to a world-class conservation, education and tourism facility. It presented an opportunity to provide an education and recreation venue with a theme on the functions and values of wetlands. As for MPNR, apart from being a natural ecological site with high conservation value, it was also a site for scientific research on wildlife and ecology of natural wetlands. Owing to the ecological sensitivity of MPNR, the number of visitors had been restricted to some 40 000 a year. HKWP could help relieve the pressure on MPNR, and provide a complementary facility to meet the heavy demand for visits to Hong Kong's wetlands.

21. Ms Miriam LAU said that visitors who wished to appreciate the wildlife and ecology of the wetlands in HKWP might be disappointed if they could only see models and recreated features in the exhibition galleries of the visitor centre. She enquired how far visitors to the Park would have the opportunity to gain hands-on experience on local wetlands. C for T explained that the exhibits in the visitor centre of HKWP were aimed at creating a memorable and exciting experience to visitors by simulating different typical environments. For example, in one of the galleries, the physical environment, such as temperature and humidity level would be adjusted according to the different zones of the wetland environment. AD/AFCD(C) said that to enhance the simulation effects and to demonstrate the diversity of Hong Kong's wetland ecosystem, fishes and small wild animals would be displayed in the visitor centre and along the stream walk which linked the visitor centre to the outdoor wetland discovery centre.

22. Ms Miriam LAU asked whether visitors could take a panoramic view over the wetland reserve in the HKWP. C for T said that there would be a viewing gallery at the visitor centre where visitors could have nice views of the Park. She added that apart from photos, models and other visual objects, AFCD was also considering to provide audio guiding devices for visitors. While expressing support for the HKWP project, Ms LAU called on the Administration to strike a balance between nature conservation and the provision of an education and recreation facility for local residents and overseas visitors. Pointing out that ecotourism was one of the top four attractions for tourists traveling to Hong Kong, Mrs Selina CHOW said that many green groups had positive views on ecotourism. Mrs CHOW suggested that a balance between the development of ecotourism and conservation should be maintained through controlling the number of visitors and the design and management of the Park.

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V Future development of the electricity market in Hong Kong

- (LC Paper No. CB(1)829/04-05(01) - Information paper provided by the Administration (with public consultation paper annexed)
- LC Paper No. CB(1)1000/04-05(02) - Submission from Greenpeace)

23. Mr Fred LI suggested that before the end of the Stage I consultation on the future development of the electricity market in Hong Kong on 30 April 2005, the Panel should arrange another discussion session or meeting to further discuss the subject. In this connection, members noted that a motion debate on “Scheme of Control Agreements (SCA) of the two power companies and the long-term energy policy” would be held at the Council meeting on 2 March 2005. After discussion, members agreed that in view of the importance of the subject, the Panel would further discuss the subject at a future Panel meeting, at which the Administration should report to the Panel on the results of the Stage I consultation.

24. Ms Emily LAU suggested that the Panel hold a public hearing to receive public views on the subject. Members noted her suggestion.

Presentation by the Administration

25. The Deputy Secretary for Economic Development and Labour (Economic Development) (DS/EDL) briefed members on the consultation paper on “Future development of the electricity market in Hong Kong – Stage I consultation”, highlighting the issues and the possible arrangements for the future market development discussed in the consultation paper. She also made the following points -

- (a) In conducting the electricity market review, the Administration had undertaken detailed studies which had drawn on a wide range of professional expertise and experience, including experience of other economies, and the findings of consultancy studies commissioned by the Electrical and Mechanical Services Department (EMSD) on increasing interconnection between the two local power companies. The Energy Advisory Committee (EnAC) had been consulted throughout the review.
- (b) Whatever arrangements were pursued for the future electricity market, the Administration considered that there must be no compromise in the overarching objective of ensuring reliable and safe electricity supply.
- (c) On environmental protection issues, minimizing emissions in power generation was important to improving air quality and Hong Kong's achieving the emission reduction targets. Measures taken to achieve the emission reduction targets could lead to substantial costs which might impact on tariffs. The Administration hoped that the community would have a rational and informed discussion and consider sharing the

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cost for the sake of better air quality.

- (d) The issues and the possible arrangements discussed in the consultation paper were not meant to be exhaustive. The Administration welcomed suggestions of other issues and arrangements for further examination.
- (e) The Administration held an open mind and did not have any formed view on the arrangements for the future development of the electricity market. The Administration hoped that through rational discussions, an arrangement could be worked out that would balance the interests of the various parties concerned.

Discussion with the Administration

The Administration's position on the existing SCA arrangement

26. Referring to the criticisms on the existing SCA arrangement cited in paragraph 2.7 of the consultation paper, Mr Fred LI said that the criticisms revealed the major shortcomings of the existing SCA arrangement. He asked whether the Administration concurred with these criticisms.

27. Mr KWONG Chi-kin considered that the said criticisms on the existing SCA arrangement were the majority views of the public. Whilst the Administration had stressed that it did not have any formed views on the issues raised in the consultation paper, he considered it preferable for the Administration to make clear its position regarding the said criticisms. He also opined that apart from setting out the pros and cons of the various possible arrangements for the future electricity market in Hong Kong, the Administration should also put forward its recommendations for the public's consideration. He urged the Administration to set out concrete recommendations in the Stage II consultation paper.

28. SEDL concurred that the criticisms on the existing SCA arrangement referred to in the consultation paper were views expressed by some members of the community. He said that the Administration had an open mind on post-2008 arrangement and the purpose of the Stage I consultation was for the Administration to gather views from various parties which would be carefully considered in drawing up proposals that the Administration would present in the Stage II of the consultation exercise.

29. SEDL added that the arrangements for the future electricity market should aim at achieving certain objectives. Firstly, the stability and reliability of electricity supply must be ensured. Secondly, the future arrangements should enable the electricity supply sector to do more by way of environmental protection. Thirdly, the level of tariffs must be reasonable. Fourthly, shareholders of the power companies expected reasonable return on their investments.

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The consultation paper and availability of further relevant details

30. Mr Ronny TONG commended that the consultation paper was well written. However, he found that there were insufficient information for the public to consider the viability and the merits and demerits of the various possible arrangements. For example, details about the cost implications of increased interconnection between the two power companies and between Hong Kong and the Mainland were lacking in the consultation paper. He considered that detailed analyses of various possible arrangements especially analyses on viability and cost-effectiveness were essential for in-depth discussions by the community. He asked whether the Administration would consider setting up an expert working group to examine the various possible arrangements, and in particular to look into how fair competition could be introduced into the electricity sector and how environmental protection issues could be satisfactorily addressed.

31. The Permanent Secretary for Economic Development and Labour (Economic Development) (PS/EDL) said that in the process of the electricity market review over the past two years, the Administration had worked closely with EnAC and had solicited its views on various relevant issues. The Administration had prepared various working papers on specific topics of the electricity market with detailed information for consideration by the EnAC. The views of EnAC had been incorporated into the present consultation paper as appropriate. She said that 19 working papers had been uploaded onto the website of the Economic Development and Labour Bureau (EDLB) for public information. That said, if members required further information on any specific issues, the Administration was happy to follow up accordingly.

32. Mr Ronny TONG said that it might be difficult for the public to digest the 19 working papers. It might be useful if the Administration could summarize the papers and set out concisely the viability and cost-effectiveness of the various possible arrangements for the future electricity market for the public's reference.

33. PS/EDL said that there were detailed analyses of various relevant issues and possible arrangements in the working papers. As regards the viability of a certain arrangement, she said that very often a whole range of factors needed to be taken into account in determining the viability or the extent of viability of an arrangement. It would not be appropriate for the Administration to give views on the degree of viability of individual possible arrangements at this stage, and indeed the Administration held an open mind in respect of the various possible arrangements.

34. Mr Ronny TONG asked how the Administration would respond if the public chose an arrangement which in fact was not viable or was very costly to implement.

35. SEDL said that if any suggested arrangement was in fact not viable at all, the Administration would have made that clear to the public. He reiterated that the Stage I consultation was to gather views from the public on various issues pertaining to the future arrangement for the electricity market. Taking into account the views received,

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the Administration would draw up proposals with detailed analyses on the future direction which would be put out in the Stage II of the public consultation.

36. Dr LUI Ming-wah said that the high reliability of electricity supply in Hong Kong was an asset to the community. The main concerns of the public were the perceived high tariffs and the need to make improvements in the environmental protection aspects. He commented that the present consultation paper only raised a number of issues but did not offer meaningful choices for the future development of the electricity market. He requested the Administration to provide concrete proposals with corresponding implementation time frames and cost implications in the Stage II consultation paper. He suggested that the Administration should include more details on electricity generation and transmission arrangements, including the feasibility of separating electricity generation and transmission, increased interconnection with the Mainland, as well as the feasibility and cost implications of constructing additional nuclear power plants.

37. SEDL concurred that assessments of different arrangements for the electricity market should be included in the Stage II consultation document. He pointed out that how and from where electricity was supplied were business decisions of the power companies and in the longer term some might choose to have electricity supplied by facilities located in the Mainland. He said that the Administration would try to come up with concrete proposals by end 2005.

38. Miss TAM Heung-man commented that under the existing SCA arrangement, the two power companies were earning unreasonably high levels of profits. There was an urgent need to review the local electricity market. She asked whether the Administration had reviewed the electricity market in the short to medium term, and whether it had carried out relevant studies in respect of the various possible arrangements in the medium term and long term.

39. DS/EDL said that the consultation paper considered and sought views on possible arrangements for the development of the electricity market in Hong Kong after 2008. In terms of electricity demand, the latest forecast as stated in paragraph 2.2 of the consultation paper indicated an annual growth rate of 2-3% over the next 10 years. The installed and committed generation capacities of the two power companies were expected to be able to meet local demand up to around the end of this decade. With regard to demands in the short to medium term, under the existing SCA arrangement, the Administration would review the forecast electricity demand and generation capacities required put forward in the financial plans of the two power companies over a four to five-year period and again in the context of the annual tariff review exercise. The mechanism for the forecast and review of electricity demand and generation capacities beyond 2008 would depend on the arrangements to be worked out for the electricity market after 2008.

Regulatory arrangement and institutional set-up

40. Referring to the part of the consultation paper on the regulatory arrangement

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and institutional set-up for the future electricity market, Mr WONG Kwok-hing, commented that the element of labour unions' participation had been omitted and this was a shortcoming of the consultation paper. He highlighted that a good employer-employee relationship had very important bearing on the reliability and stability of electricity supply. Moreover, labour unions' participation in the regulatory regime could effectively prevent exploitation of workers and abuse of the contracting-out arrangement, and this in turn could help safeguard the reliability and safety of electricity supply. He asked whether the Administration would consider including representatives from relevant labour unions in the future regulatory authority. He added that labour unions had raised this request with him.

41. SEDL said that the Administration had not formed a view on whether there should be an independent authority. If such an authority were to be established, the Administration would bear in mind Mr WONG's view.

Environmental protection measures and their impact on tariffs

42. Mr Jeffrey LAM said that the high reliability of power supply in the past years had contributed to the development of commercial and financial activities in Hong Kong. In comparison, other major cities in the Pearl River Delta still had to endure an extent of shortage of power supply. Noting from the consultation paper that the Government would cap emissions from power generation in Hong Kong through specifying the maximum allowable quantities in future licences for power plants, Mr LAM asked how far the investment by power companies in the relevant facilities would impact on electricity tariffs and whether the Government would set an upper limit on the power companies' investment in such facilities.

43. DS/EDL responded that Environment, Transport and Works Bureau was discussing with the two power companies the detailed arrangements for achieving the emission reduction targets. As regards the impact on tariffs, this would depend on when the investment was made. If the investment were made before the existing SCAs expired, the investment would be factored into the tariff calculations according to the arrangements prescribed in the SCAs. If the investment were made after the existing SCAs expired, the effects on tariffs would depend on the arrangements under the new regime.

Use of renewable energy for electricity supply

44. Ms Emily LAU concurred that ensuring the reliability of power supply was an overarching objective. On this premise, the public demanded the introduction of competition into the electricity market so that electricity tariffs could be lowered. The public was also very concerned about environmental protection matters. She referred to paragraph 3.55 of the consultation paper and noted that the potential levels of electricity generated by the use of renewable energy at different times up to 2022, as assessed in a consultancy study conducted in 2002, were on the low side. She also noted from the consultation paper that the Council for Sustainable Development (CSD) had recently sought the views of the public on, amongst other issues, how renewable

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energy should be introduced in Hong Kong, taking into account economic, social and environmental constraints. She enquired about the results of the consultation undertaken by the CSD.

45. DS/EDL advised that having regard to the views received during its consultation, CSD had concluded that the levels of electricity generated by using renewable energy as estimated in the 2002 consultancy study were viable, and CSD would recommend to the Government to adopt those estimated levels as the initial targets. In mapping out the future direction for the use of renewable energy for power generation, the Administration would take into account the views of CSD in this regard.

46. Ms Emily LAU noted in paragraph 3.58 of the consultation paper that two recent surveys conducted by the Government indicated that there was general but qualified public support for the introduction of renewable energy sources. She sought details of these surveys.

47. DS/EDL said that the results of the two surveys, namely the Thematic Household Survey conducted by the Census and Statistics Department in 2003 and the Establishment Survey on Electricity Supply in Hong Kong conducted by Economic Development and Labour Bureau (EDLB) in 2004, had been published on the websites of the Census and Statistics Department and EDLB respectively. Members could retrieve the information from the Internet. She said that according to the results of both surveys, there was general support for the use of renewable energy but there was no consensus on how the additional costs required should be borne.

48. In reply to Ms Emily LAU's enquiry on how far Hong Kong could draw reference from overseas experiences in the use of renewable energy for electricity generation, DS/EDL replied that hydro power and wind power were the major sources of renewable energy used in many overseas places. Compared to most other places, Hong Kong was subject to greater environmental and physical constraints such as the lack of hydro resources and the scarcity of land for wind farms. As such, overseas experiences in the application of renewable energy for electricity generation were not readily applicable to the Hong Kong situation.

49. Mr Fred LI referred to the statement in paragraph 3.58 of the consultation paper that "any financial incentives to encourage the development and use of renewable energy will have implications on the Government's established policy of no government subsidy or cross-subsidization of business endeavours". He commented that this statement was incorrect. There were precedents where the Government had provided financial incentives to encourage the use of environmentally-friendly fuels. For example, the Government had waived land premium for liquefied petroleum gas (LPG) filling stations and provided financial incentives for diesel public light buses to switch to LPG ones.

50. Mr KWONG Chi-kin commented that the consultation paper included few details about environmental protection issues. He requested the Administration to

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provide more details in the Stage II consultation paper on the options for the use of renewable energy for electricity generation.

Increased interconnection

51. Mrs Selina CHOW noted from the consultation paper that two consultancy studies completed respectively in 1999 and 2003 concluded that, prima facie, there would be overall economic benefits in increasing the interconnection capability between CLP Power Hong Kong Ltd. (CLP) and the Hong Kong Electric Company Ltd. (HEC), and that this project was technically feasible. However, it was also stated in the consultation paper that while increasing the interconnection capability to the “full access” level (i.e. the interconnection between the two power companies was enhanced to the extent that customers were provided with a choice of either company for obtaining electricity supply) was technically possible, the Administration’s assessment had shown that to provide this “full access” capability would be very costly and might not be economically viable. Mrs CHOW sought elaboration on these analyses.

52. Mr Fred LI said that without increased interconnection between CLP and HEC, customers on Hong Kong Island and some outlying islands would have to continue to pay the higher tariffs of HEC. He asked whether in the long term, there could be increased interconnection to enable competition in the electricity market.

53. Mr KWONG Chi-kin shared Mrs Selina CHOW’s observation and considered that the consultation paper was guiding the public to think that increasing interconnection to the extent of providing customers with the choice of suppliers was not economically viable due to the very high cost involved.

54. PS/EDL advised that what was at issue was the extent of interconnection. Previous studies had confirmed the technical feasibility of increased interconnection between CLP and HEC, but different extents of interconnection would entail different amounts of capital investment. SEDL stressed that the Administration had not said that increasing the interconnection capability between the two power companies or that between Hong Kong and the Mainland was not viable. However, the Administration had to point out that the greater the extent of interconnection, the more the investment would be required. The Administration shared the view that more competition was desirable, and would also wish to see enhanced interconnection between Hong Kong and the Mainland to enable the supply of electricity from the Mainland to Hong Kong. The Administration noted, nevertheless, that development in this direction would be subject to certain conditions as discussed in the consultation paper.

55. Mrs Selina CHOW said that from consumers’ angle, it was important to bring in more competition into the future electricity market. The question of whether increasing the interconnection capacity to the extent of allowing customers the choice of suppliers was economically viable should better be left to the market to decide. The Administration should not make any presumption on this issue at this early stage.

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Instead, the Administration should plan the future development towards opening up the market and bringing in more competition into the market.

Permitted rate of return

56. Mr SIN Chung-kai stated his view that the permitted rates of return under the existing SCAs were too high. He pointed out that presently, the power companies could finance their fixed assets through long-term borrowings at an interest rate of 7%-8% or at even more favourable rates given the guaranteed return under the SCAs. On the other hand, they could earn profits up to 13.5% on the fixed assets. Hence, under the existing SCA arrangement, the returns for the shareholders of the two power companies were very high, while their customers had to bear relatively high tariffs. He understood that some independent studies suggested that in setting the permitted rate of return, the Weighted Average Cost of Capital (WACC) approach was preferred to the existing asset base approach, and one important merit of the WACC approach was that the fluctuation in the market interest rate could be factored into the formula for calculating the permitted rate of return. He asked whether the Administration would set out a concrete proposal on the permitted rate of return for the power companies in its Stage II consultation paper.

57. SEDL said that one major issue raised in the consultation paper was whether the SCA arrangement should continue, and if so, how the permitted rate of return should be determined. There could be many different approaches and bases for setting the permitted rate of return and the Administration had made reference to overseas practices as detailed in the consultation paper. He confirmed that the Administration would include in the Stage II consultation paper its recommendation on this aspect having regard to the views received.

The decision-making process

58. Mr SIN Chung-kai was also concerned about the decision-making process. He said that after the public consultations, the Administration might decide to pursue a regulatory regime that did not involve legislation. For instance, the Administration might enter into new SCAs with the power companies, which were bilateral agreements not subject to the scrutiny of the Legislative Council.

59. SEDL said that after the Stage II public consultation, the Administration would revert to the Panel for further discussion on the subject matter. He assured members that the whole exercise would proceed in a highly transparent manner.

Review of the financial plans of the two power companies

60. In reply to Mr Fred LI's enquiry about the review of the last financial plans of the two power companies before the expiry of the SCAs, DS/EDL advised that the review was in progress. The financial plans covered the years from 2005 to 2008, and included estimates on electricity demand and electricity sales, the required investments on power generation/supply systems and equipment, the corresponding

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financing arrangements, and the impacts on tariffs which would need to be carefully examined. The Administration was working with the two power companies on the review and would report the review results to the Panel in due course.

VI Any other business

61. There being no other business, the meeting ended at 12:35 pm.

Council Business Division 1
Legislative Council Secretariat
7 April 2005