



香港地產建設商會

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THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

香港中環德輔道中十九號環球大廈1403室

Room 1403, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

Tel: 2826 0111 Fax: 2845 2521

8 June 2006

Clerk to Panel on
Economic Services (Electricity)
Legislative Council Secretariat
3/F Citibank Tower
3 Garden Road
Central
Hong Kong

Attention: **Ms. Debbie Yau**

Dear Ms. Yau

**Panel on Economic Services
Invitation for Submissions**

We thank you for your letter of 6 June inviting our views on the arrangements to cater for new supply sources for the future electricity market in Hong Kong.

We have submitted our views on the future development of the electricity market to the Economic Development and Labour Bureau in response to their latest round of public consultation, and I am pleased to enclose a copy of our submission for the Panel's information.

Please note that we shall not attend the meeting on 30 June.

Yours sincerely

Louis Loong
Secretary General

THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

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30 March 2006

Secretary for Economic Development and Labour
Economic Development and Labour Bureau
2/F Main Wing
Central Government Offices
Lower Albert Road
Hong Kong

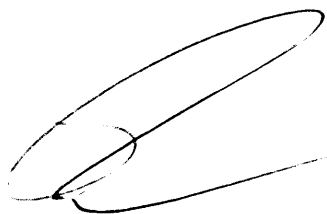
Attention: Mr. George Ling

Dear Mr. Ling

**Consultation Paper on
the Future Development of the Electricity Market in Hong Kong
Stage II Public Consultation**

We thank you for your letter of 30 December 2005 to our President and as requested, are pleased to enclose herewith our comments on the various aspects outlined in your Consultation Paper.

Yours sincerely



Louis Loong
Secretary General



The Real Estate Developers Association of Hong Kong
Comments on the Stage II Consultation Paper
on the Future Development of the Electricity Market in Hong Kong

A. Policy Objective

The Government's policy objective of ensuring a reliable, safe and efficient electricity supply at reasonable prices is supported.

B. New Supply Sources

We do not consider them feasible in the short term.

C. Proposed Regulatory Arrangements

1. *Duration of the Agreements*

Acknowledging that a shorter term may induce higher risks to the power companies, which in turn may translate into a premium on their investment return and a higher tariff to the consumers, we consider that on balance a duration of 15 years is fair to both parties.

2. *Permitted Rate of Return*

No explanation is offered in the consultation document for setting the permitted rate of return in the range of 7 to 11%. As of today, the risk free capital cost is between 4.8 to 5% while the weighted average cost of capital for Hong Kong power companies is 7%. As such, 7% would therefore seem unattractive for long term investments.

While a fixed rate of 15% throughout a contract term of 15 years under the current Scheme of Control has proved to be inflexible, to review the rate every 5 years without very clear and binding parameters would bring too much risks and further reduce the incentive to lower returns for the power companies. A right balance should be struck among risks, contract term and rate of return and, as a general rule, one uniform rate should be set for all asset classes. A higher rate of return, however, should be used to incentivize investment on emission reduction facilities.

3. *Affordability*

As it is not feasible to define whether a particular level of tariff is affordable to consumers, we do not consider it appropriate to set tariff by reference to this indicator.

4. *Institutional Setup*

The current institutional set up for the Scheme of Control is considered appropriate and the status quo should be maintained.