立法會
Legislative Council

LC Paper No. CB(1)992/06-07
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by the Administration)

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Panel on Economic Services

Minutes of meeting
held on Tuesday, 21 December 2006, at 4:00 pm
in Conference Room A of the Legislative Council Building

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

Public officers attending	:	<u>Agenda Item III</u> Mr Stephen IP Secretary for Economic Development and Labour Ms Eva CHENG Permanent Secretary for Economic Development and Labour (Economic Development) Miss AU King-chi Commissioner for Tourism Miss Patricia SO Assistant Commissioner for Tourism 2 <u>Agenda Item IV</u> Mr Stephen IP Secretary for Economic Development and Labour Ms Eva CHENG Permanent Secretary for Economic Development and Labour (Economic Development) Mr Howard LEE Deputy Secretary for Economic Development and Labour (Economic Development)2 Ms Brenda CHENG Principal Assistant Secretary for Economic Development and Labour (Economic Development) <u>Agenda Item V</u> Mr Stephen IP Secretary for Economic Development and Labour Ms Eva CHENG Permanent Secretary for Economic Development and Labour (Economic Development) Mr Michael WONG Deputy Secretary for Economic Development and Labour (Economic Development)1

Mr Jonathan McKinley
Principal Assistant Secretary for Economic Development and Labour (Economic Development)

Attendance by invitation : <u>Agenda Item III</u>

<u>Hong Kong Disneyland</u>

Mr Bill ERNEST
Managing Director

Ms Winnie HO
Director, Government Relations

<u>Agenda Item IV</u>

<u>Hongkong Electric Holdings Limited</u>

Mr K S TSO
Group Managing Director

Mr C T WAN
Director & General Manager (Corporate Development)

Mr Neil D McGee
Group Finance Director

Mr Steve NG
Deputy Chief Accountant

<u>CLP Group</u>

Mrs Betty YUEN
Managing Director (CLP Power)

Mr S H CHAN
Planning Director (CLP Power)

Ms Jane LAU
Director - Group Public Affairs (CLP Holdings)

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)6

Staff in attendance : Mr Kelvin LEE
Assistant Legal Adviser 1

Ms Debbie YAU
Senior Council Secretary (1)1

Ms Michelle NIEN
Legislative Assistant (1)9

Action

I Information papers issued since last meeting

(LC Paper No. CB(1)488/06-07(01) - Press release on "Competition Policy Advisory Group Report 2005-2006"

LC Paper No. CB(1)410/06-07(01) - Tables and graphs showing the import and retail prices of major oil products from November 2004 to October 2006 furnished by the Census and Statistics Department)

Members noted the above two information papers issued since last meeting.

II Items for discussion at the next meeting

(LC Paper No. CB(1)530/06-07(01) - List of outstanding items for discussion

LC Paper No. CB(1)530/06-07(02) - List of follow-up actions)

2. Members agreed to discuss the following items proposed by the Administration at the next regular meeting to be held on Monday, 22 January 2007, at 10:45 am:

(a) Briefing on SkyCity Development at the Hong Kong International Airport; and

(b) Replacement of high performance computing system for the Hong Kong Observatory.

III Progress update on Hong Kong Disneyland

(LC Paper No. CB(1)530/06-07(03) - Information paper provided by the Administration

LC Paper No. CB(1)8/06-07(03) - Letter dated 14 September 2006 from Hon Fred LI Wah-ming

LC Paper No. CB(1)530/06-07(04) - Background brief on Hong Kong Disneyland prepared by the Secretariat)

Briefing by Hong Kong Disneyland (HKD)

3. At the invitation of the Chairman, Mr Bill ERNEST, Managing Director of HKD briefed members on the highlights of HKD in the first year of operation and its plans on future development. He said that HKD was thankful to Members of the Legislative Council (LegCo) and the public for their support in patronizing the theme park and providing many valuable advices. As of 1 December 2006, HKD had created some 5 000 new jobs. HKD received in total 5.2 million visitors during the first year among whom 34% were visitors from the Mainland, and added three new attractions at Tomorrowland all of which had proved to be extremely popular to visitors. On the marketing front, the Hongkong International Theme Parks Limited (HKITP) had developed close relationship with its stakeholders, including the Government, travel trade partners and Members. In the coming year, HKITP would continue to sharpen its marketing initiatives to promote the Disney Magic to a wider audience, especially those in the Mainland and overseas. In particular, HKITP would provide more information on the classic Disney stories behind the attractions and the unique experience being offered to potential Mainland visitors to enhance their understanding of the Disney theme. Moreover, HKITP would continue to identify the key holiday and vacation periods of the major markets to ensure that visitors could enjoy special programmes. To strengthen partnership with wholesalers and retail travel agents, HKITP would provide unique travel trade offers, market-specific seasonal offers and an enhanced goal-based incentive programme designed to reward top performing wholesalers. On the local market, the Annual Pass programme had proved to be very successful. HKITP was pleased to note that HKD was able to play a key role in the development of Hong Kong family tourism as the number of overnight family visitors had grown by 24% in the first half of 2006 over the same period in 2005. In 2007, HKITP would step up efforts to attract the young adult audience while continuing to build up Hong Kong's family tourism. On future expansion plan for HKD, HKITP had planned to add two new attractions and one extra parade over the next 18 months. With HKD's commitment, Mr ERNEST believed that it would continue to be a valuable permanent asset for Hong Kong and a very welcome home away from home for many families.

Discussion

Performance of HKD

4. Mr Fred LI said that the information paper provided by the Administration and the above remarks by Mr ERNEST had not addressed the concerns in his letter dated 14 September 2006 (LC Paper No CB(1)8/06-07(03)). For instance, no information on HKD's revenue generated from patronage, merchandises and catering services as well as returns, if any, for the Government's investment on the theme park had been provided. Noting that HKD had received lower visitor number in its first year of operation than the original projected annual attendance of 5.6 million visitors, Mr LI enquired whether HKITP would revise the forecasted park attendance figure in the light of experience.

5. Miss TAM Heung-man also noted with concern that the Administration's paper did not provide information on the actual number of visitors received by HKD and the park's financial performance. As such, she queried how the LegCo and the public could monitor the performance of HKD to ensure that the Government's investment in the theme park was value for money.

6. In response, Mr Bill ERNEST stressed that it was a corporate policy of Walt Disney Company not to disclose commercially sensitive information. Nevertheless, given that the past year was HKD's start-up year in which the company had gained a lot of experience about the market situations in Hong Kong and Southern Asia, the company was proud to have attracted 5.2 million visitors. Moreover, HKD had attained a solid financial foundation. As it had maintained sufficient cashflow ensuring smooth operation, there was no intention to seek new funding from the Government for the above-mentioned expansion projects. He stressed that HKD would not put shareholders' interests at risk. In addition, the HKD project had created some 5 000 new jobs which was one of its key economic benefits for Hong Kong. On park attendance, Mr ERNEST pointed out that it was only one of the components of HKD's overall business matrix. In measuring HKD's business performance, in addition to park attendance, it was also necessary to look at the occupancy rates of its two hotels, as well as incomes from its merchandises and catering services. Nonetheless, Mr ERNEST stressed that HKD was a long-term investment project for Hong Kong that would last for 50 years or more.

7. Mr Fred LI noted from media reports the comments by Mr Mike ROWSE, Director-General of InvestHK, that the lower than expected patronage to HKD was due to the failure of its marketing strategy. He sought the views of the Administration on the comments.

8. In response, the Secretary for Economic Development and Labour (SEDL) clarified that Mr ROWSE was not the subject officer in the Government tasked to oversee the HKD project. On the concern about the performance of HKD, SEDL stressed that members of the Board of HKITP, including the two newly-appointed independent non-executive directors, Mr Payson CHA and Mr Philip CHEN, would

seek to help ensure that resources of HKITP were prudently utilized. The Board would continue to closely monitor the operation of HKD, including promotion and marketing strategies for both its theme park and hotels.

Ticketing arrangements of and promotion for HKD

9. Mr Howard YOUNG expressed appreciation on the high level of patronage achieved by HKD during its first year of operation. Referring to incidents of ticketing chaos and park closure during the 2006 Chinese New Year holidays, he expressed concern about precautionary measures taken or to be taken in the light of experience gained to avoid recurrence of similar incidents in the upcoming Chinese New Year peak season.

10. In response, Mr Bill ERNEST said that HKD had improved its ticketing arrangements during festival seasons by introducing a "Special Days" ticket system under which only guests with a date-specific ticket for Special Days would be admitted to the theme park. HKD had designated 17 to 24 of February 2007 (i.e. the Chinese New Year week) as Special Days. He added that in working out the Special Days, HKITP had discussed with travel trade partners and wholesalers in the Mainland to understand the visitors' travel pattern. He believed that the designated Special Days had covered the key dates of the Mainland's Golden Week for the Chinese New Year of 17 to 28 February 2007. In reply to Mr Howard YOUNG's further enquiry, Mr ERNEST assured that guests with date-specific tickets, irrespective whether they were individual visitors or those in tour groups, could enter and enjoy the park.

11. Ms Miriam LAU was pleased to note the various improvements in HKD in the first year of operation. She further noted from media reports that some travel agents in the United States (US) had plans to form alliances with theme parks in Hong Kong in offering city passes to the parks for their package customers, and enquired whether HKD would consider joining such plans to attract more visitors to the park.

12. Mr Bill ERNEST responded that HKITP had recently exchanged views with a US professional tourism group in exploring the feasibility of offering city pass packages to customers visiting Hong Kong. The initiative would enable visitors to enjoy as many attractions as possible in Hong Kong and could attract more visitors to HKD.

13. Mr CHAN Kam-lam was pleased to note that HKITP had been making improvements in operating HKD over the past year. Given the Government's social policies gearing towards supporting and consolidating the family, he suggested that HKITP should strengthen its promotional efforts to families and consider providing concessionary tickets to families with senior/junior members in support for the policies. The suggestion would not only enhance HKD's patronage, but also encourage local families to stay and spend in Hong Kong during festival holidays. In this connection, Mr CHAN sought information on the projected visitor numbers from the family market segment.

14. Mr Bill ERNEST highlighted the marketing, sales and publicity initiatives launched by HKITP to attract target audiences in all key markets. For example, HKD would organize special events during key holidays, vacation and festive periods such as Halloween, Christmas, Chinese New Year and summer vacation. In end of September 2006, HKITP launched HKD's Annual Pass programme offering greater flexibility and convenience for guests. Mr ERNEST advised that so far, over 20 000 passes had been sold and sales were progressing satisfactorily. Other promotional programmes such as "Stay and Play for Two Days" and discounted hotel stays were also well-received, in particular by visitors from Southern China. On target audience, Mr ERNEST stressed that HKD was a theme park for everybody. While HKITP aimed to develop promotional offers and campaigns to drive awareness and attendance particularly among young adults in 2007, it should be noted that 95% of the annual passes were sold to local families which could join special event programmes launched in HKD throughout the year.

15. Mr SIN Chung-kai was pleased to note that HKD had been making steady improvements in the first year of operation. Noting that programmes in Asia World Expo (AWE) usually finished at 5:00 pm and convention participants would look for good places for spending the evening, Mr SIN suggested that HKITP should consider partnering with AWE in offering half-day tickets to convention participants.

16. Mr Bill ERNEST thanked Mr SIN for the suggestion. He said that HKITP had noticed the market potential of convention participants and was actively considering promotional packages for this segment of visitors.

Expansion and guest satisfaction

17. Ms Miriam LAU highlighted that the success or otherwise of HKD would depended on a number of factors, inter alia, promotion by word-of-the-mouth and good reputation. In her views, if guests were satisfied with the entertainment experiences, they would help spread the positive messages around. While understanding that HKD as a new theme park would have limited facilities in its initial commissioning, Ms LAU was concerned whether HKD could expand at a faster pace by adding more new attractions sooner. Indeed, she noted that some guests had expressed concern about the high entrance fees vis-à-vis the small number of attractions in HKD.

18. On park expansion, Mr Bill ERNEST highlighted that in the summer of 2006, HKD had successfully launched three new attractions, namely Autopia, UFO Zone and Stitch Encounter. Over the next eighteen months, two more attractions, i.e. the Disney classic "it's a small world" and "Animation Academy", and a day parade "Mickey's WaterWorks" would be launched at HKD to further enhance the attractiveness of the park. Mr ERNEST assured members that HKD had taken expansion very seriously. In adding new attractions to its master plan, HKD had taken into account the popularity of attractions in other Disneyland theme parks, and feedbacks and suggestions from guests expressed in guest surveys.

19. Noting that the idea of developing another Disneyland theme park in Shanghai had been put on hold, Mr SIN Chung-kai was concerned whether Phase 2 development of HKD could be expedited so as to further enhance the competitiveness of HKD among other tourist attractions in the region.

20. The Permanent Secretary for Economic Development and Labour (Economic Development) (PS/ED) advised that reclamation of a site for Phase 2 development of HKD was underway and would complete by 2008. In taking forward Phase 2 development, the Administration and HKITP would have due regard to market demand, the patronage of the park, feedback from visitors and other considerations. She re-iterated that both the Government and HKITP had a mutual understanding to keep up the momentum of developing the theme park to enrich guest experience and three more attractions would be launched in Phase 1 over the next eighteen months.

21. In reply to Miss TAM Heung-man, Mr Bill ERNEST said that HKITP had conducted guest surveys to gauge the level of satisfaction of guests towards HKD's attractions, catering services and merchandises. The survey results indicated that over 80% of the theme park guests and 90% of hotel guests had rated the overall experience at HKD as positive. Most of the guests had also responded positively regarding their intent to return. Mr ERNEST said that the survey results were on par with those of other Disneyland theme parks.

Employment for persons with disabilities and community engagement

22. Extending congratulation on HKD's success in the past year, Dr Fernando CHEUNG sought information on the percentage of persons with disabilities (PwDs) that had been employed by HKD among its 5 000-strong workforce and the details of the internships and job trial programmes offered to disabled employees.

23. Mr Bill ERNEST confirmed that some 100 PwDs had been employed to work full-time and part-time in HKD since its opening. He said that HKITP remained committed to the employment of PwDs and would continue to appoint PwDs to various positions in the park. In order to disseminate recruitment information to PwDs in a more timely manner, HKITP had put in place a special arrangement to pass the monthly update on all job openings in HKD to the Social Welfare Department, Labour Department and Hong Kong Council of Social Services since August 2005. HKITP had also taken initiative in exploring innovative ways to work directly with non-government organizations (NGOs) on the employment of PwDs. Mr ERNEST advised that earlier this year he and the senior management of HKD had visited a number of NGOs to learn about their job training programmes for the disabled. During such visits, some PwDs had indicated their interest to take up jobs at HKD. On the other hand, some of the NGOs had also visited HKD to follow up on related matters to facilitate progress on employment of PwDs. He supplemented that HKITP was also exploring possibilities such as offering internships and job trial programmes for the disabled at various lines of businesses in HKD, including catering services, entertainment,

hotels and reservations. HKITP would continue to liaise with NGOs in respect of job training and skill matching for PwDs. In reply to the Chairman, Mr ERNEST assured members that the PWD staff would receive adequate training to enrich guest experience and ensure safety.

24. Noting that in 2005 HKD had donated more than 60 000 park tickets through community groups and voluntary agencies to beneficiaries including PwDs, children, teenagers and senior citizens, Dr Fernando CHEUNG appreciated HKD's generosity and urged HKD to step up its efforts in community engagement. In his views, the 60 000 free tickets only amounted to less than 1% of the annual attendance of 5.2 million.

25. Mr Bill ERNEST remarked that HKITP had been engaging the community through HKD's community relations programmes and voluntary service before the opening of HKD. Mr ERNEST assured members that the 60 000 complimentary tickets were just a start and HKITP would continue to use the park as a home base for hosting different community groups throughout the year. For instance, HKD had received 50 young children with heart diseases on the past Sunday.

IV Annual tariff reviews with the two power companies

(LC Paper No. CB(1)587/06-07(03)	-	Presentation materials provided by Hongkong Electric Holdings Limited.
LC Paper No. CB(1)587/06-07(04)	-	Presentation materials provided by CLP Power Hong Kong Ltd.)

Presentation by Hongkong Electric Holdings Limited (HEC)

26. Mr K S TSO, Group Managing Director of HEC highlighted that HEC's first gas-fired generation unit (L 9) had begun commercial operation in October 2006. With the operation of this unit for the whole year of 2007 replacing some of the coal generation, emissions would be reduced but fuel costs would be higher. HEC had been providing customers with a special rebate of 1.9 cents per unit of electricity, which was a temporary measure put in place to assist Hong Kong’s economic recovery. In view of improvement in Hong Kong’s economy with Gross Domestic Product growth estimated to be 6.5% for 2006, HEC considered that there was no need to continue with the special rebate. As a result of the higher fuel costs and cancellation of the special rebate, there would be a 2.5% increase in HEC’s electricity tariff for 2007. In order to limit the tariff increase, HEC would continue to keep the average basic tariff at the 2005 level which was much lower than that allowed under the current Scheme of Control Agreement (SCA). According to HEC's estimation, there would be a shortfall in permitted return of over $400 million for 2007 and it would be the fifth consecutive year in which HEC's shareholders had not earned the permitted level of return under the SCA. Through various rebates and shortfalls in permitted return, HEC's total

contribution for the last four years since 2003 had amounted to close to $3 billion. It was believed that the tariff adjustments for 2007 would have minimal impact on HEC's customers as 70% of its domestic customers would pay less than $12 more a month whereas 70% of non-domestic customers would pay less than $51 more a month. Nevertheless, as a socially responsible company, HEC would continue to provide assistance to the needy through its concessionary tariff scheme which had offered up to 60% discount on tariffs to customers.

27. With the aid of power-point, Mr C T WAN, Director & General Manager (Corporate Development) of HEC introduced HEC tariff adjustment for 2007 as follows:

Tariff components (cents/kWh)	Current	Changes (+/-)	Effective 1 January 2007
Average Basic Tariff	114.4	-	114.4
Fuel Clause Surcharge	4.9	1.0	5.9
Average Special Rebate	-1.9	1.9	-
Rate Reduction Rebate	-	-	-
Average Net Tariff	117.4	2.9 (+2.5%)	120.3

He highlighted that there would be no change in average basic tariff but the fuel clause surcharge would be increased and the special rebate cancelled. Leveraging on a worldwide cities domestic tariff benchmarking advertised by CLP Group (CLP) in local newspapers on the day of the meeting, Mr WAN said that, on the same consumption basis, the average domestic tariff of HEC in 2007 would be about 8.6% higher than that of CLP. On the whole, HEC's domestic tariffs were still competitive among other big cities.

Presentation by CLP Group (CLP)

28. Mrs Betty YUEN, Managing Director (CLP Power) remarked that CLP would continue to freeze its tariffs in 2007, which was the ninth consecutive year in which tariffs had been maintained at their 1998 levels. She said that CLP was able to alleviate the pressure of rising costs through enhanced productivity, stringent cost control, and utilization of profit from electricity sales to Guangdong.

29. With the aid of power-point, Mr S H CHAN, Planning Director (CLP Power) highlighted CLP's tariff adjustment for 2007 as follows:

Tariff components (cents/kWh)	Current	Effective 1 January 2007
Average Basic Tariff	88.2	88.2
Fuel Clause	2.0	2.0
Scheme of Control Rebate	-1.1	-1.1
2007 Special Rebate	-1.8	-1.8
Average Net Tariff	87.3	87.3
** Same as 2006 Special Rebate*		

He said that CLP's tariffs in 2007 would be frozen by extending this year's special rebate for another year while keeping all other tariff components unchanged. The special rebate for 2007, totaling around $500 million, would be funded by CLP’s Development Fund (DF) and its associated account. Mr CHAN remarked that over the past four years, surging fuel and material costs, as represented by a doubling of coal prices and a quadrupling of copper prices, had put tremendous cost pressure on the operations of power companies around the world. In the last two years, major overseas power companies including those in Singapore, London and New York had increased their tariffs by between 12% and 29% but CLP had managed to freeze its tariffs. CLP's tariff levels therefore compared very favourably to those of metropolitan cities. CLP also surpassed Pearl River Delta cities in terms of electricity supply quality. In addition to freezing tariffs for the past eight years, CLP had attained 90% improvement in supply reliability. By November 2006, annual average unplanned minutes lost of electricity supply for CLP's customers were less than three minutes, which had outperformed major cities like New York, Paris and London.

Discussion

Tariff adjustment for 2007

30. Mr KWONG Chi-kin pointed out that there had been many public criticisms on the proposed tariff adjustment by the two power companies. In this connection, members of the Hong Kong Federation of Trade Unions was also staging a petition outside the Legislative Council Building requesting HEC to freeze its tariff and CLP to provide more tariff concessions. As such, Mr KWONG called on the power companies to re-consider their tariff adjustment for 2007. He urged that the power companies should be more responsive to public's sentiment and avoid reaping short-term profits at the expense of public support, in particular when the negotiation for the post-2008 SCAs was underway. Mr KWONG further

considered that the Administration should tighten its regulatory control over the power companies to meet public expectations for reasonable and stable tariffs.

31. SEDL stressed that annual tariff reviews with the two power companies had to be conducted within the framework of the current SCAs. He further assured members that as in the past, the Administration had spared no effort in discussing with the power companies on tariff adjustment to protect consumers' interests. He highlighted that in drawing up the post-2008 regulatory arrangements for the electricity supply sector, the Administration would address the shortcomings of the current regulatory regime. The Administration clearly understood the views and expectations of the public. On the rate of return for the power companies, as explained before, it would be unrealistic for the power companies to expect a double-digit rate of return under the new SCAs given the present-day business environment. The companies were well aware of the Administration's firm stance on this issue.

32. Mr K S TSO stressed that being a socially responsible corporation, HEC would consider and balance the interests of both its shareholders and customers in conducting tariff review. He re-iterated that to contain tariff increase in 2007, there would be a shortfall in HEC's permitted return of over $400 million. Moreover, as HEC's tariffs from 2003 to 2006 were lower than the entitled levels and coupled with the special rebates offered, HEC's total shortfall in permitted return for the period was close to $3 billion.

33. Mrs Betty YUEN responded that CLP understood public demand for tariff stability. CLP had managed to alleviate the cost pressure through enhanced productivity, stringent cost control, and utilization of profit from electricity sales to Guangdong, thereby freezing tariff for nine years. She stressed that CLP would do its best to meet public expectation for more stable tariffs.

34. Given that electricity was an important necessity for the general public, Dr Fernando CHEUNG considered it unacceptable that the Government had entrusted the supply of electricity to two profit-making power companies through the SCAs, under which tariffs could be adjusted to enable shareholders to yield returns up to a permitted level. In this connection, Dr CHEUNG requested the power companies to provide information on the level of profits to be achieved in 2007.

35. On the request for information on estimated profits in 2007, Mrs Betty YUEN said that according to rules by the Securities and Futures Commission, listed companies were prohibited from disclosing information on profits forecasts concerning their business performance.

HEC's tariff adjustment

36. Noting that 70% of HEC's domestic customers would pay less than $12 more a month after the tariff adjustment, Mr CHAN Kam-lam enquired about the extent of tariff increase for the remaining 30% customers.

37. In reply, Mr C T WAN advised that 70% of HEC's domestic customers consumed 500 units of electricity or less per month whereas 50% customers consumed about 3 300 units or less per year (i.e. 275 units or less per month on average). He explained that to encourage energy conservation, many power companies around the world had since 1990s adopted a progressive block tariff structure for domestic customers under which the tariff per unit would increase with increase in the level of consumption. In other words, the more units of electricity consumed, the higher the average tariff would be.

38. Despite that HEC's average net tariff for 2007 would be 120.3 cents/kWh, Mr CHAN Kam-lam noted from page 7 of HEC's power-point that the domestic tariff was below 100 cents/kWh. He also noted that the domestic tariff difference between HEC and CLP in the past years had been as high as more than 30%, instead of just 8.6% in 2007 as claimed by HEC. As such, Mr CHAN enquired about how HEC had worked out the figures on net tariff and tariff difference with CLP.

39. Mr C T WAN explained that the comparison on domestic tariff was based on the benchmarking done by CLP and on the basis of annual consumption by domestic customers of 3 300 units. This kind of comparison was common in the electricity industry worldwide. He confirmed that on that basis, the domestic tariff difference between HEC and CLP in 2007 would be about 8.6%. Mr CHAN Kam-lam was unconvinced and considered that a more reasonable comparison should be based on the actual average net tariffs of the power companies.

40. Echoing Mr CHAN's view, Dr YEUNG Sum expressed grave concern that HEC's electricity tariff per unit was nearly 40% higher than CLP. Pointing out that HEC had already raised tariffs by 6.5% and 7.2% in the past two years, coupled with the proposed 2.5% increase for 2007, he was concerned whether the increases could be affordable by HEC's consumers, in particular those in the grass-root level. Given that HEC had yielded a net profit of over $2,400 million for the first half of 2006, Dr YEUNG considered HEC insatiable in proposing the increase for 2007 and asked whether HEC had considered freezing its tariff instead.

41. On the concern about the proposed tariff increase for 2007, Mr C T WAN stressed that HEC had already frozen the average basic tariff which was below the level allowed under the SCA. As a result, there would be a shortfall in HEC's permitted return. As regards the allegation that HEC was reaping huge profits, Mr WAN re-iterated that HEC had not earned return to the entitled level under SCA in the past four years. He explained that the 2.5% tariff increase for 2007 was to cover the increasing fuel cost, particularly arising from the increase in using natural gas for the full year of 2007 in power generation. The use of more natural gas would help reducing emission and the increasing fuel costs would eventually be passed onto the consumers. Dr YEUNG Sum however considered that power companies as responsible social corporations should take up the cost of emissions reduction.

42. Mr CHAN Kam-lam enquired about the reason for HEC to increase the fuel clause surcharge by one cent in 2007. Noting that there were deficits in HEC's fuel clause account due to surging coal prices in the past few years, Dr Fernando CHEUNG sought HEC's views on possible increase in costs in the fuel market in the next few years and the likely increase in fuel clause surcharge to cover the deficits.

43. Mr C T WAN explained that the one cent increase in fuel clause surcharge in 2007 was the result of the full-year usage of natural gas in power generation. He added that while natural gas was more environmentally friendly, it was more expensive than coal. As regards future changes in fuel clause surcharge, he said that this would depend on future fuel prices and electricity sales of HEC.

44. Pointing out that the one cent increase would translate into a 20% increase in HEC's overall fuel clause surcharge, Mr Fred LI raised query about the justification for the increase as he noted that electricity generated from L9 by using natural gas would account for less than 20% of HEC's total power generation.

45. Mr C T WAN advised that the annual electricity sales of HEC was slightly above 10 billion units. The one cent increase in fuel clause surcharge would only increase HEC annual revenue by about $100 million. This was small as compared with the cost of natural gas consumed by similar plants as L9 at the present-day market price of natural gas, the fuel cost should be about $700 to $800 million. As HEC had secured contracts for the supply of natural gas at old prices in early years, it was able to limit the increase in fuel cost surcharge.

46. To address members' concerns about HEC's proposed tariff adjustment for 2007, the Chairman requested HEC to provide a breakdown on the rate of return achieved by the company for the shareholders and the profit made in respect of the past five years.

(*Post-meeting note:* The requested information provided by HEC was circulated to all Members vide LC Paper No CB(1)716/06-07(02) on 12 January 2007.)

47. In reply to Dr Fernando CHEUNG's suggestion for HEC to extend its concessionary tariff to all disadvantaged groups, Mr C T WAN said that HEC had been offering a 60% tariff discount for the first 200 units consumed per month by customers who were eligible for public assistance. HEC considered its present concessionary tariff sufficient in addressing the needs of customers of the disadvantaged group. He re-iterated that concessionary tariff coupled with measures to contain tariff increase, had resulted in a total shortfall in HEC's return of close to $3 billion for the past four years and a further shortfall of $400 million in 2007.

48. The Chairman enquired whether HEC had put in place contingency measure to cope with possible technical failure of L9. In reply, Mr K S TSO confirmed that in the unlikely event that the newly-commissioned L9 did not work properly, the original coal-fired unit could be deployed instantly to generate power.

CLP's tariff adjustment

49. Mr Fred LI and Mr Abraham SHEK expressed concern about the rate of return achieved by CLP in the past years, and sought information on the profit yielded by the company as well as the balance of its DF in respect of the past five years.

50. On the rate of return achieved by CLP, Mrs Betty YUEN recapped that due to continued productivity enhancement and stringent cost control, CLP was able to freeze its tariffs nine years in a row while achieving the permitted rate of return of 13.5% to 15% for its shareholders. The purpose of the DF was to help fund the company's capital expenditure and smooth out tariff fluctuations. So far, CLP's DF had helped provide a total of $3 billion rebates to customers and would provide a further $500 million to fund the special rebate in 2007. She added that as agreed with the Government, the balance of DF was capped at 12.5% of local electricity sales. Indeed, CLP had exercised prudent management over the years to maintain a healthy DF balance to ensure that it could consistently meet the company's monthly cashflow requirement. In this connection, Mr Abraham SHEK requested CLP to provide the profit yielded by the company and the balance of DF in respect of the past five years.

> (*Post-meeting note:* The information provided by CLP was circulated to all Members vide LC Paper No CB(1)716/06-07(01) on 12 January 2007.)

51. Noting that CLP was able to freeze its tariffs partly through utilization of profit from electricity sales to Guangdong, Ir Dr Raymond HO was concerned about the impact on CLP's tariff with the introduction of the Emissions Trading Scheme (ETS) in Guangdong, in which CLP would participate. Mr S H CHAN said that CLP could only assess the impact on tariff after the details of ETS were released.

52. In reply to the Chairman's enquiry, Mrs Betty YUEN confirmed that cessation of electricity sales to Guangdong would have impact on CLP's tariffs. She further advised that the sales volume to Guangdong was subject to a number of external factors, including the weather conditions in Guangdong such as the temperature and rain levels. As such, it was difficult for CLP to give an accurate forecast on the sales volume to Guangdong. Nevertheless, the profit from electricity sales to Guangdong had helped CLP stabilize its tariff and provide rebates to its customers.

53. Ir Dr Raymond HO referred to the average unplanned customer minutes lost of 5.4 minutes per year of CLP during the period of 2003-2005 (page 3 of CLP’s power-point) and sought details on the calculation of the figure.

54. Highlighting CLP’s high supply reliability which had attained world-class standard, Mr S H CHAN advised that the figure on average minutes lost had been worked out adopting the relevant international standard under which occasions when electricity interruption lasted for a minute or more would be taken into account.

55. In reply to Dr Fernando CHEUNG’s call for CLP to provide more assistance in tariffs for the disadvantaged groups, Mrs Betty YUEN advised that in addition to concessionary tariff for the elderly, CLP had launched the "Care for the Health of the Elderly Programme" since 2004 to provide free influenza vaccinations for elderly residents. It also funded the "Young Power Programme" with the aim to nurture the younger generation in the society.

CLP's proposal of constructing a liquefied natural gas (LNG) receiving terminal

56. Members noted the letter from Hon Fred LI dated 15 December tabled at the meeting about CLP's proposal of constructing a LNG receiving terminal in Hong Kong and the supply of natural gas from the Yacheng field.

> (*Post-meeting note*: Hon Fred LI's letter was issued to Members vide LC Paper No. CB(1)587/06-07(01) on 22 December 2006.)

57. Referring to the joint statement issued by CLP and China National Offshore Oil Corporation Limited (CNOOC), the Yacheng field operator, on 18 December 2006, Mr SIN Chung-kai sought clarification on the daily delivery rate of gas from Yacheng for supply to CLP, and enquired about the estimated time taken for the gas reserve to exhaust under a daily offtake volume of 250 and 300 million cubic feet. He considered that such information would provide useful reference in considering CLP's proposed $8-billion LNG receiving terminal project on South Soko Island. He expressed concern that the huge capital cost would boost CLP's asset base and have impact on its tariffs. In this connection, he also enquired whether the Government would seek expert advice in ascertaining the level of gas reserve in Yacheng field.

58. Regarding gas reserve in Yacheng, Mrs Betty YUEN said that the gas field was developed in the 90's. Having produced and delivered gas for ten years, the latest estimation revealed that the level of gas reserve in Yacheng field was lower than the original projection. She added that CLP needed to consume 300 million cubic feet of gas to attain the 2010 emission reduction target. According to current estimation, gas supply from Yacheng field could only sustain around early next decade at this rate. As such, CLP had explained to the public that it needed new sources of gas supply by early next decade.

59. Noting CLP's response, Mr Fred LI enquired whether CLP would consider reducing gas deliveries from Yacheng field and using more coal in power generation so as to sustain gas supply to 2015. He considered that if CLP increased the use of coal, the fuel clause could be lowered, and hence there would be room for tariff reduction in 2007.

60. Mrs Betty YUEN advised that in line with international practice, CLP had entered into a 20-year gas supply contract with CNOOC until 2015. The contract allowed the gas supplier to explore new sources of supply. Periodically, subject to mutual agreement of the contracting parties, the offtake volume was adjusted to sustain gas supply until the end of the contract period. As gas reserve in Yacheng field had turned out to be lower than expected, Mrs YUEN said that CLP would reduce the daily offtake volume from 250 to 170 million cubic feet and possibly lower in order to sustain supply until 2015. This would increase coal usage and hence emission levels, which was not desirable. As such, CLP was exploring new gas supply sources. She advised that since the price of fuels had surged substantially over recent years, the current Fuel Clause was not sufficient to recover the fuel cost and DF had been used to offset such shortfall. CLP could hardly adjust its tariff downward even if the company were to resort to using more coal in power generation. Moreover, in working out the fuel clause for 2007, CLP had already taken into account the possibility of using more coal. It was CLP's intention to obtain the Government's approval for the LNG receiving terminal project as soon as possible. The approval would provide the opportunity to increase the gas volume delivered from Yacheng in the near term, and the assurance that adequate replacement gas supplies, through imported LNG, would be available early next decade so that the air quality in Hong Kong could be improved.

61. In respect of the level of gas reserve in Yacheng field, PS/ED confirmed that the Administration would consult experts on the matter. In considering CLP’s LNG terminal project in South Soko Island, the Administration would examine carefully all relevant factors, including the level of gas reserve in Yacheng field, electricity demand in the future, environmental requirements, financial implications of the project, and other possible alternatives. SEDL added that the Administration understood clearly public concern about the impact of the project on CLP's tariffs. He assured that the Administration would be prudent in exploring feasible alternatives and take into account all relevant factors to ensure that the final decision would be in the overall interests of Hong Kong.

Future development of the electricity market in Hong Kong

62. On the post-2008 bilateral agreements under negotiation between the Government and the two power companies, Dr YEUNG Sum urged the Administration to lower the permitted rate of return, abolish the current asset-based approach in determining returns for the companies, and include provisions requiring the companies to enhance emissions reduction.

63. SEDL re-iterated that in the present-day business environment, it was unreasonable for the power companies to continue to expect a double-digit rate of return for the post-2008 SCAs. Unlike the current arrangement whereby one single rate was applied to all types of fixed assets in the entire supply chain, the Administration had proposed in the "Stage II Consultation Paper on Future Development of the Electricity Market in Hong Kong" (the Stage II Consultation Paper) applying different rates of return to different types of assets in the post-2008 SCAs. On emissions reduction, SEDL understood that the power companies had been working closely with the Environment, Transport and Works Bureau and the Environmental Protection Department in achieving the 2010 emission reduction targets.

64. Miss TAM Heung-man was concerned that the inherent shortcomings of the current SCAs had enabled HEC to increase its tariffs in the past years and that HEC's commercial customers had been paying almost 40% more in electricity bills than CLP's customers. Miss TAM considered that enhancing market competition, increased interconnection between the two power companies, and introduction of new electricity suppliers, might help address the problem. She sought information on the latest progress on these measures.

65. The Deputy Secretary for Economic Development and Labour (Economic Development 2) (DS/ED2) said that as stated in the Stage II Consultation Paper, the Administration supported increased interconnection at an "optimum" level between the two power companies and hoped that this could be achieved within the next bilateral agreement period. He however cautioned that CLP needed to invest further on new generation capacities if it needed to supply electricity to all customers of HEC. Expansion on the asset-base could have significant tariff implications. In determining the extent of increased interconnection between the power companies and the resultant market structure, the Administration would analyze related financial implications and economic benefits to enable customers to reap the benefits of reserve capacity sharing and coordinated generation planning between the two companies. On the introduction of new electricity supplier, DS/ED2 confirmed that the Administration was processing an application from a company for supplying electricity to a small area in North New Territories using Mainland power sources. Due to the small coverage area, it was not expected that the new supply source would bring about any significant impact on the existing market. SEDL added that in addressing members' concern about high electricity tariffs and in order to enhance consumers' choice, the Administration would make preparations within the next agreement period for facilitating interconnection with Guangdong and introduction of new supply sources from the Mainland.

66. Ir Dr Raymond HO expressed reservation on the proposal of increased interconnection with Guangdong due to concern about lower supply reliability of Mainland power sources. He stressed the importance for the Administration to assess the claimed benefits against the risk of lower supply reliability when considering the proposal.

67. SEDL assured members that in introducing new supply sources from the Mainland and liberalizing the electricity market in Hong Kong, the Administration was mindful of the need to put in place the necessary regulatory framework, covering both technical and regulatory aspects, and make sufficient preparation for the relevant legislative framework to ensure that the high standard of supply reliability currently enjoyed by consumers would not be compromised. That was why the Administration had proposed that the new bilateral agreement be on a 10-year term to allow sufficient time for making all necessary preparations.

68. Citing overseas experiences where the market structure in the electricity supply sector had gradually moved from a vertically integrated structure, i.e. suppliers owned and operated the entire electricity supply chain, to a structure with different players engaging in power generation, transmission and distribution services, Mr LEUNG Kwok-hung considered that the current vertically integrated market structure in Hong Kong and the economic regulatory regime ensuring permitted returns for the power companies rather unique. He asked whether the Administration had considered introducing reform in the light of overseas experiences.

69. SEDL said that the structure of the future electricity market in Hong Kong would be moving in the same direction as the major overseas jurisdictions. The separation of power grids from the power generation systems was one of the key issues to be examined during the next bilateral agreement period. On the institutional setup for regulating the future electricity market, the Administration had agreed to keep under review the need for setting up an independent energy authority with representation from various stakeholders. Consideration could also be given to entrust this authority with the responsibility to regulate matters relating to access to the power grids, including setting reasonable access charges to protect consumers' interests.

V Briefing on the public consultation on competition policy

(LC Paper No. CB(1)519/06-07(01)	-	Information paper provided by the Administration
Ref: EDB CR 2/3231/2006	-	Legislative Council Brief on Public Consultation on Competition Policy with the public consultation document and the Report on the Review of Hong Kong's Competition Policy
LC Paper No. CB(1)530/06-07(05)	-	Background brief on Competition Policy in Hong Kong prepared by the Secretariat

LC Paper No. CB(1)1923/05-06(01) - Information paper provided by the Administration)

Presentation by the Administration

70. At the invitation of the Chairman, SEDL highlighted that the public discussion document (the discussion document) on the way forward for competition policy in Hong Kong had set out the main areas for consideration when determining the direction for Hong Kong's policy, including overseas' practices in implementing competition policy and various examples on anti-competitive conduct. Members and the public were invited to provide their views and suggestions on the discussion document during the three-month consultation period up to early February 2007.

71. With the aid of power-point, the Deputy Secretary for Economic Development and Labour (Economic Development)1 (DS/ED1) briefed members on the key issues raised in the discussion document under three major categories namely, the need and scope for a new competition law, the regulatory framework, and enforcement and other regulatory issues.

(*Post-meeting note:* The softcopy of the presentation material was circulated through e-mail to all Members vide LC Paper No. CB(1)586/06-07 on 22 December 2006.)

Discussion

72. While agreeing that a general competition law could help maintain fair competition and sustain free market economy in Hong Kong, Mr CHAN Kam-lam highlighted the concern of small and medium-sized enterprises (SMEs) that the new law might make them more vulnerable to legal actions by large companies seeking to undermine small market players by accusing them of anti-competitive conduct. He sought information on measures to safeguard the interests of SMEs. Mr CHAN further enquired whether the proposed independent authority for implementing the competition regulatory regime would be provided with sufficient resources to handle complaints relating to anti-competitive conduct, in particular when many of them might be trivial, frivolous or malicious.

73. In response, PS/ED pointed out that similar concerns were expressed in the "Report on the Review of Hong Kong's Competition Policy" completed by the Competition Policy Review Committee (CPRC) in June 2006. To address the concerns, as noted in the discussion document, a new competition law could stipulate that the regulatory authority could have regard to a certain threshold before initiating a formal investigation. Competition laws in some overseas jurisdictions contained provisions that the regulatory authority could only invoke its investigative powers in a suspected case if the parties under complaint had a combined market share of 20% or above. She cited the example of an overseas regulator who had conducted investigations into some 20 to 30 cases annually despite having received over 1 000 complaints. In drafting a new competition law,

if it were to be introduced, efforts would be made to define clearly the specific types of anti-competitive conduct to be regulated and to put in place requirements that the regulatory authority should exercise its investigative powers only when it had reasonable grounds to do so. PS/ED said that the Administration welcomed views from SMEs on these measures and other suggestions to help address their concerns. Their views on related proposals in the discussion document such as the most suitable regulatory framework for implementing the competition law, issues related to handling of complaints and conduct of investigations etc. were also welcomed.

74. Mr Fred LI expressed the full support of the Democratic Party (DP) to CPRC's recommendation of introducing a general competition law in Hong Kong. Noting that the business sector had expressed reservations over the proposal of enacting a cross-sector competition law as there were concerns, particularly from SMEs that they might easily fall foul of the new legislation, Mr LI called on the Administration to draw on overseas experience on ways to alleviate SMEs' worries and clearly explain how SMEs could benefit from the new regime, including safeguards on their interests and promoting a fair competition environment. Noting the proposed scope of the new law would not cover mergers and acquisitions (M&A), Mr LI stressed the need for the Administration to review the need to regulate M&A activities some time after implementation of the new law.

75. PS/ED pointed out that based on her observations at the public forum held at the end of November 2006, the business sector, including SMEs, was in general supportive of introducing a cross-sector competition legislation, although some stakeholders had expressed concerns about the need to limit the power of the regulatory authority. On regulating M&A activities, she said that it was the CPRC's view that the new law should not target regulation of market structures, as current market structures were generally the result of normal free market forces.

76. DS/ED1 said that he understood that SMEs were in principle supportive of adopting a legislative approach as this could help safeguard their interests from threats posed by the dominant market players. Nevertheless, the Administration was mindful of SMEs' concerns including the possible impact of the new legislation on their business operations. To address SMEs' concerns, the Administration would continue to brief the business sector and SMEs at various forum and solicit their views through the trade associations. The Administration would be pleased to attend seminars organized by various stakeholders to exchange views on related issues. In reply to Miss TAM Heung-man's enquiry, PS/ED said that the Administration had been attending seminars organized by SME organizations to brief them on the details of the proposals.

77. Mr James TIEN said that as he observed at the public forum held in end November 2006, participants expressing support for the proposal of introducing a new competition law might not be members of the business sector. He noted that internal consultation within the trade associations was still underway and so far, as he understood, SMEs had not taken a position yet. He shared Mr CHAN Kam-lam's observation that there was concern from some SMEs about large

companies abusing the regime to take legal actions against smaller competitors by accusing them of anti-competitive conduct. He added that there was also concern about the effectiveness of the new law as it would not target at large companies currently enjoying market dominance such as the chained supermarkets. SMEs as well as the business sector in general were worried that the details of the legislative proposal might turn out to be different from those set out in the discussion document.

78. SEDL emphasised that the intention of the discussion document was to provide an objective basis for an informed discussion in the community of the appropriate way forward for Hong Kong's competition policy. It had identified twenty key questions for stakeholders, including SMEs, to consider and respond to. For example, they were invited to provide views on whether breaches of the new competition law, if any, should be subject to civil or criminal penalties. The Administration would be pleased to discuss with the trade associations any concerns that they might have. He assured Members that the views collected and concerns raised during the consultation process would help the Government formulate concrete proposals on the way forward for implementing an effective competition regime in Hong Kong. The scope of the new law, if it were to be introduced, would take into account the views received during the consultation period. He called on the business sector to take the opportunity to fully express their views and concerns.

79. The Chairman remarked that there was concern that the Government had already made up its mind on introducing a new competition law to regulate anti-competitive conduct.

80. In response, SEDL stressed that the Government maintained an open mind on the approach to be adopted for implementing competition policy in Hong Kong. He re-iterated that the trade associations and SMEs should voice out their worries and concerns as well as put forward suggestions on related issues to ensure that the new regime would be in the overall interest of Hong Kong. SEDL pointed out that the views received so far had indicated a general consensus on adopting a legislative approach to regulate competition. Nonetheless, he assured Members that the Administration would continue to collect and analyze views expressed by stakeholders, and carefully consider them before making a decision on the way forward.

81. Mr Abraham SHEK enquired whether the professional sector such as accountants and lawyers would also be subject to the new competition law. DS/ED1 remarked that cross-sector competition laws in overseas jurisdictions were applicable to all sectors. He referred to the example cited in the discussion document whereby the American Bar Association was the subject of a complaint for having adopted discriminatory standards in accrediting law schools in the United States. He however added that whether a behaviour or practice would be regarded as anti-competitive would depend on the details of the new law. PS/ED added that while competition law in overseas jurisdictions had allowed for exemptions in the application of the law, such exemptions should be generic in

nature, relating to types of economic activity or arrangement, rather than being industry or sector specific.

VI Any other business

82. There being no other business, the meeting ended at 6:35 pm.

Council Business Division 1
Legislative Council Secretariat
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