立法會
Legislative Council

LC Paper No. CB(1)847/07-08
(These minutes have been seen
by the Administration)

Ref : CB1/PL/EDEV/1

Panel on Economic Development

Minutes of meeting
held on Friday, 21 December 2007, at 3:30 pm
in the Chamber of the Legislative Council Building

Members present	**:**	Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman) Hon Abraham SHEK Lai-him, SBS, 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, GBM, GBS, JP Hon Fred LI Wah-ming, JP Hon CHAN Kam-lam, SBS, JP Hon SIN Chung-kai, SBS, JP Hon Howard YOUNG, SBS, JP Hon Albert CHAN Wai-yip Hon Vincent FANG Kang, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon Ronny TONG Ka-wah, SC Hon TAM Heung-man
Members attending	**:**	Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP Hon WONG Kwok-hing, MH Dr Hon Fernando CHEUNG Chiu-hung
Members absent	**:**	Dr Hon LUI Ming-wah, SBS, JP Hon LAU Chin-shek, JP Hon Miriam LAU Kin-yee, GBS, JP Hon WONG Ting-kwong, BBS Hon CHIM Pui-chung Hon KWONG Chi-kin

Public officers attending : Agenda Item IV

Miss AU King-chi, JP
Commissioner for Tourism

Miss Patricia SO
Assistant Commissioner for Tourism

Agenda Item V

Mr Frederick MA, JP
Secretary for Commerce and Economic Development

Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)

Miss AU King-chi, JP
Commissioner for Tourism

Mr Owin FUNG
Assistant Commissioner for Tourism (Special Duties)

Agenda Item VI

Mr Edward YAU Tang-wah, JP
Secretary for the Environment

Mr Roy TANG Yun-kwong, JP
Deputy Secretary for the Environment

Ms Brenda CHENG
Principal Assistant Secretary for the Environment (Financial Monitoring)

Mr Eric CHAN Sui-wai
Administrative Assistant to Secretary for the Environment

Attendance by invitation : Agenda Item V

Hong Kong Disneyland

Mr Bill ERNEST
Managing Director

Ms Linda CHOY
Director, Government Relations

Agenda Item VI

The Hongkong Electric Company Limited

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
Group Chief Accountant (Designate)

CLP Group

Mrs Betty YUEN
Managing Director – CLP Power

Mr S H CHAN
Planning Director – CLP Power

Miss Jane LAU
Director – Group Public Affairs

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

Staff in attendance : Ms Debbie YAU
Senior Council Secretary (1)1

Ms Michelle NIEN
Legislative Assistant (1)9

Action

I Confirmation of minutes and matters arising

(LC Paper No. CB(1)458/07-08 - Minutes of meeting held on 22 October 2007)

The minutes of the meeting held on 22 October 2007 were confirmed.

II Information papers issued since last meeting

(LC Paper No. CB(1)386/07-08(01) - Tables and graphs showing the import and retail prices of major oil products from November 2005 to October 2007 furnished by the Census and Statistics Department)

2. Members noted the above information paper issued since last meeting.

III Items for discussion at the next meeting

(LC Paper No. CB(1)457/07-08(01) - List of outstanding items for discussion

LC Paper No. CB(1)457/07-08(02) - List of follow-up actions)

3. Members agreed to discuss the following two items proposed by the Administration at the next meeting to be held on 28 January 2008:

(a) Facilitate ship finance in Hong Kong; and

(b) Budget of the Hong Kong Tourism Board (HKTB) for 2008-2009.

(*Post-meeting note*: As advised by the Administration, item (b) was subsequently re-titled as "HKTB Work Plan for 2008-09".)

IV Update on the development of a new cruise terminal at Kai Tak

Papers for the meeting

(LC Paper No. CB(1)457/07-08(03) - Information paper on update on the development of a new cruise terminal provided by the Administration

LC Paper No. CB(1)457/07-08(04) - Administration's responses on Report on the Study of the Development of Cruise Terminal Facilities in Hong Kong

LC Paper No. CB(1)485/07-08(01) - Submission from the Chairman of Hong Kong & Kowloon Trades Union Council (English version only)

LC Paper No. CB(1)457/07-08(09) *(tabled at the meeting and subsequently issued via e-mail on* - Administration's paper on update on the development of a new cruise terminal at Kai Tak

24 December 2007)		(power-point presentation materials)
Other relevant papers issued previously		
LC Paper No. CB(1)333/07-08	-	Report of the Panel on Economic Development on the Study of the Development of Cruise Terminal Facilities in Hong Kong)

4. The Chairman declared that he was an independent advisor of the Tender Assessment Panel (TAP) for the development of the new cruise terminal project.

Briefing by the Administration

5. At the invitation of the Chairman, the Commissioner for Tourism (C for Tourism) updated members on the development of a new cruise terminal at Kai Tak (the Kai Tak cruise terminal project) and the latest efforts to enhance Hong Kong as a regional cruise hub.

6. With the aid of power-point, the Assistant Commissioner for Tourism (AC for Tourism) briefed members on the latest progress of the Kai Tak cruise terminal project. She highlighted the salient points as follow:

(a) The Government had invited open tender on 9 November 2007 for the Kai Tak cruise terminal project. The successful tenderer was required to design, build, operate, manage and maintain the new cruise terminal under a 50-year land lease and began operating the first berth in February 2012. The tender would close on 7 March 2008;

(b) Situated on a site of 7.6 hectares, the new cruise terminal would comprise about 30 000 square metres (m^2) cruise terminal facilities, not more than 50 000 m^2 in the cruise terminal building for commercial purpose, and not less than 22 000 m^2 for a landscaped deck for public use;

(c) The Government would adopt a two-envelope approach in assessing the tender bids, with 70% weighting to be given to the quality aspect including the technical as well as the operation and management proposals of the bids, and 30% to the premium aspect;

(d) TAP would be underpinned by international and local experts as consultants and independent advisors to advise it on specific aspects. In addition, the Independent Commission Against Corruption would participate as an observer to ensure the impartiality and fairness of the tendering process;

(e) The successful tenderer would be required to enter into a Service Agreement with the Government. The Service Agreement, which would be co-terminous with the land lease, would incorporate the successful tenderer's proposals and service pledges for the operation and management of the new cruise terminal. Areas to be covered included baggage handling time, arrangement on information disclosure and establishment of market consultation forum, etc. The execution of the land lease and the Service Agreement would be around the second quarter of 2008;

(f) The Government was preparing for the establishment of an Advisory Committee on Cruise Industry (ACCI) to solicit advice on measures to enhance the development of Hong Kong as a regional cruise hub. ACCI would bring together key players in the cruise market and tourism industry, and focus on the following work in its initial operation:

   (i) Co-operation with neighboring coastal provinces in the Mainland on cruise itinerary arrangement;

   (ii) Promotion of cruise tourism in Hong Kong and the Asia-Pacific region;

   (iii) Interim berthing arrangements for cruise vessels before 2012;

   (iv) Supply of talent for the cruise market and related industries;

   (v) Entry of cruise vessels (and their passengers) homeporting in Hong Kong to neighbouring ports-of-call in the Mainland; and

(g) To develop Hong Kong as a regional cruise hub, the Tourism Commission (TC), together with HKTB, had been liaising closely with the neighboring coastal provinces in Mainland namely Guangdong, Guangxi, Fujian and Hainan, as well as the China National Tourism Administration (CNTA) in developing and promoting cruise itinerary.

Discussion

Open tender for the new cruise terminal

7. Mr Abraham SHEK indicated support for the development of a new cruise terminal. He however highlighted the importance of maintaining a level-playing field in the tender exercise and promoting fair competition among potential tenderers. Noting that tenderers would need to meet an entry requirement of a minimum three years' immediate experience in operating cruise terminal(s), Mr SHEK expressed concern that the requirement might exclude interested parties from the tender exercise and result in unfair competition indirectly.

8. C for Tourism remarked that potential bidders were required to demonstrate that they had at least three members in the project teams with the above mentioned minimum experience. The experience needed to be gained from various functional areas at a cruise port with a minimum annual throughput of 200 000 embarking and disembarking homeport passengers. Bidders could satisfy the experience requirement by showing that their key personnel/senior management had sufficient relevant experience. These key personnel/senior management could be secured through various channels, for example, direct recruitment from the market, and forming of joint ventures/partnerships, etc. According to the cruise consultant, personnel with such experience were available in the port authorities, cruise terminal operators or cruise companies operating in the relevant ports.

9. Mr James TIEN enquired whether the successful bidder could replace any of the three members in the project team subsequent to the award of the tender. C for Tourism advised that the successful bidder should maintain the composition of the project team during the development stage of the new cruise terminal as far as practicable. The successful tenderer would need to seek the approval of the Government before making any changes to the project team members and to their responsibilities during the period of January 2009 to February 2015. Thereafter, the tenderer should inform the Government and the cruise market/tourism industry in writing of any such changes according to the service pledges set out in the Service Agreement.

10. While expressing support in principle for the development of the new cruise terminal, Mr Albert CHAN cautioned that in recent years many promising tourism projects had eventually given rise to tourism scandals, such as the cases of Ngong Ping 360 and Hong Kong Disneyland (HKD). As such, he stressed the importance to ensure the tender exercise would be conducted in a fair and impartial manner.

11. C for Tourism highlighted the impartiality and fairness of the open tender for the Kai Tak cruise terminal project. She stressed that the tender document had been drawn up taking into account views expressed by the cruise market and tourism industry during several rounds of consultation. She elaborated that since the Government's announcement of the new cruise terminal project in October 2006, TC had been engaging the market and relevant professional bodies seeking their views on the development parameters of the new cruise terminal. In April 2007, TC uploaded to its website information on the proposed development parameters for further market consultation. Since then, TC had held a number of exchange sessions with the cruise market, tourism industry, relevant trade bodies and professional organizations. In August 2007, TC published the summary of the market feedback and the proposed key development parameters for reference of the public. With regard to the market view that the successful tenderer should, in addition to experience in constructing cruise terminals, also have experience in operating and managing cruise terminals including marketing and promoting the facilities, providing repair and maintenance services, as well as security arrangements etc., the Administration had subsequently revised the entry

requirement for potential bidders accordingly. Moreover, to facilitate monitoring of the operation of the new cruise terminal, the successful tenderer would be required to enter into a Service Agreement with the Government. C for Tourism further highlighted the achievements in the development of local tourism projects and took the opportunity to invite Members to the VIP ride of Ngong Ping 360 scheduled for 22 December 2007.

12. Mr Abraham SHEK highlighted the difference between the experience of operating a cruise terminal and running a cruise company. He sought supplementary information on measures to ensure the successful tenderer, in particular if it was a cruise company, would allocate berthing slots of the terminal impartially to all cruise lines, and the berthing fees and charges imposed by the successful tenderer would be reasonable and competitive so as to enhance Hong Kong's position as a regional cruise hub.

13. On the allocation of berthing slots, C for Tourism advised that the potential bidders should propose berthing arrangements under the "Open to all" principle and allocate slots based on general industry practice of first-come-first-served, allocation by volume, long-term contract and priority of homeport over port-of-call. As the operator of the new cruise terminal had to compete with other cruise terminals in the region, the Administration believed that the berthing fees and charges to be imposed would be competitive.

(*Post-meeting note*: The supplementary information requested under paragraph 12 was issued to members vide LC Paper No. CB(1)619/07-08 on 17 January 2008.)

Commercial facilities and land deployment

14. Noting that not more than 50 000 m^2 in the cruise terminal building could be used for commercial and retail purposes, Mr CHAN Kam-lam was concerned that in the absence of area requirement for respective uses including hotels, convention halls, offices, shops and eating places etc., the successful tenderer might take advantage of the flexibility to develop only those facilities that could help maximize returns. In response, C for Tourism emphasized that as specified in the tender documents, the commercial and retail area in the cruise terminal building was capped at 50 000 m^2. The Administration considered that the successful bidder should be given the flexibility to decide the types of commercial facilities and the respective area to be developed in view of the long duration of the land lease of 50 years. In this connection, in reply to the Chairman's enquiry, AC for Tourism advised that according to the tender documents, the successful tenderer was required to operate and manage the new cruise terminal and the commercial area as a whole. There would be specific terms in the land lease to prevent the sale of the commercial facilities in the terminal building as a separate component.

15. Referring to a case where the property developer had been granted approval to develop a hotel in a site but subsequently succeeded in changing the project to a serviced apartment apparently due to loophole in the land lease, Mr Albert CHAN

expressed concerned that the operator of the new cruise terminal might make use of similar loophole to sell the commercial facilities under the cruise terminal project. Mr Vincent FANG echoed the concern. He was concerned that notwithstanding the commercial facilities in the terminal building could not be sold, the successful tenderer might arrange mortgage with banks for the 50 years' operating right of the commercial facilities. C for Tourism recapped that as specified in the tender documents, the premises in the terminal building could not be sold without approval of the Director of Lands. Nevertheless, she took note of members' concern and undertook to seek clarification from the Director of Lands on whether the operating right of the commercial facilities in the terminal building could be mortgaged.

(*Post-meeting note*: The requested information provided by the Administration was issued to members vide LC Paper No. CB(1)814/07-08(01) on 14 February 2008.)

16. On the location for the new cruise terminal, Mr Albert CHAN re-iterated his objection put forward to the Town Planning Board on developing the new cruise terminal at the southern end of the former runway at Kai Tak. He considered that the site in question was the biggest and last available land along the harbour front to enable the public to enjoy the beautiful harbour view. He expressed grave concern that the rooftop of the new cruise terminal, which could provide glamorous sea view to the public, would be used as car parks as in the case of the Ocean Terminal.

17. C for Tourism assured that the new cruise terminal project would include not less than 22 000 m^2 for a landscaped deck for public use, which would meet the community aspiration to enjoy the waterfront. The total area used for cruise terminal facilities and the landscaped deck would be larger than that for the commercial and retail uses in the cruise terminal building. The successful tenderer would be required to provide the landscaped deck in phases. The design of the landscaped deck, including public accessibility, would be assessed in the tender.

Non-compliance with the Service Agreement

18. Referring to the unsatisfactory performance of HKD and Ngong Ping 360, Mr CHAN Kam-lam was concerned about the mechanism for monitoring the performance of the operator of the new cruise terminal, and whether performance requirements or standards would be developed so that in case of non-compliance, the operator would be required to make improvement or the Administration could terminate the land lease. Mr SIN Chung-kai shared the concern and considered that the remedies for breaches of the Service Agreement should be clearly specified. Mr James TIEN echoed the views and stressed the need of putting in place a proper mechanism to ensure the operator would put the operation and future development of the cruise terminal as its top priority. He further considered that the 50-year land lease might pose difficulty for effective monitoring of the performance of the operator.

19. C for Tourism re-iterated that the Government would adopt a two-envelope approach in assessing the tender bids, with 70% weighting to be given to the quality aspect including the operation and management aspect. TAP would place emphasis on the tenderers' experience in operating and managing cruise terminal facilities, and their capability to engage the cruise market and the tourism sector. The successful tenderer would also be required to work with HKTB and TC in cruise market development. The successful tenderer's performance pledges in the above areas would be included in the Service Agreement. As to the concern about non-compliance with the provisions in the Service Agreement, C for Tourism said that depending on the seriousness of the matter, the Government might issue Default Notices, request information from the operator relating to compliance with the Service Agreement and land lease, or enforce the provisions of the Service Agreement by way of taking legal proceedings. She further advised that in case of serious breach of the Service Agreement by the operator, the Government could terminate the Service Agreement and take back possession of the lot and any buildings and structures built thereon. She assured members that to enhance public transparency on the latest development of the cruise terminal facilities, the successful tenderer would be required to maintain regular dialogues with the users through the market consultation forum, such as through the company's own website, as well as disclose non-commercially sensitive information to the public. It should also make regular reports to the Government, which might include commercially sensitive information that could not be disclosed to the public. Regarding the concern about the duration of the land lease, C for Tourism said that as the development of the new cruise terminal facilities would involve huge investment with estimated cost amounting to some $3.2 billion, the Administration considered that the 50-year land lease would be appropriate to attract quality bidders and to provide the operator with reasonable returns in the long run.

The Tender Assessment Panel

20. Noting that TAP would be underpinned by international experts, Mr James TIEN urged that the Government should ensure that these experts were independent of the potential bidders so as to avoid possible conflict of interests. C for Tourism advised that TAP was established to assess the bids for the cruise terminal project. TAP would be supported by international experts, who would act as consultants to provide inputs to the Panel. She added that the Government had already appointed the international experts. These experts could not be engaged by potential tenderers and were required to declare their interests with the cruise market.

21. Mr Abraham SHEK enquired about the criteria in selecting Government officials to serve in TAP as well as those for appointing international experts and independent advisors to advise TAP on specific aspects, and requested the Administration to provide supplementary information in this regard.

> (*Post-meeting note*: The Administration's information was issued to members vide LC Paper No. CB(1)619/07-08(01) on 17 January 2008.)

22. C for Tourism confirmed that independent advisors had been invited to advise TAP on specific aspects. They were Mr Anthony LAU, Executive Director of HKTB, and Honorable Jeffrey LAM, Chairman of the LegCo Panel on Economic Development who had led a LegCo delegation to visit overseas cruise terminal facilities in the summer of 2007. The Administration believed that the two advisors would give valuable advice to TAP on the tourism and marketing aspects of the tender bids. The Administration had further invited the Hong Kong Institute of Architects and Hong Kong Institution of Engineers to each nominate a member to advise TAP on the architectural and engineering aspects.

Developing Hong Kong into a regional cruise hub

23. While sharing the importance of strengthening co-operation with neighboring coastal provinces and ports for cruise itinerary development and promotion, Mr Vincent FANG was concerned whether the Administration would be held responsible if such co-operation turned out to be unsatisfactory resulting in inadequate business for the new cruise terminal. In response, C for Tourism said that the Administration was mindful of the need to enhance co-operation with neighbouring coastal provinces and ports in developing Hong Kong as a regional cruise hub. To this end, the successful tenderer would be required to work with TC and HKTB in liaising closely with the neighbouring coastal provinces in the Mainland as well as CNTA to further develop the cruise market in the region.

24. To attract cruise vessels homeporting at the new cruise terminal, the Chairman considered that the Administration should step up the development in hotel accommodation. In this connection, he noted that in order to encourage hotel development, the Administration would provide further incentives to the market by including more suitable sites in the List of Sites for Sale by Application (the Application List) for the purpose. He sought information on the selected sites, the implementation timetable and the estimated number of hotel rooms to be available in the next few years.

25. C for Tourism advised that as undertaken in the Chief Executive's Policy Address for 2007-2008, the Administration would gauge the need for land supply for the development of hotels. At present, the Application List was coordinated by the Development Bureau. To tie in with the need to support tourism, TC would provide inputs to the Development Bureau in assessing the demand and supply of hotels to facilitate the identification of sites on the Application List for hotel use. TC would also provide inputs to relevant bureaux and departments to streamline the approval procedures for hotel development projects and applications for land lease modification, so as to cater for the needs of different segments of the tourism market, including cruise passengers.

V Progress update on Hong Kong Disneyland

(LC Paper No. CB(1)457/07-08(05)	-	Information paper on progress update on Hong Kong Disneyland provided by the Administration
LC Paper No. CB(1)457/07-08(06)	-	Updated background brief on Hong Kong Disneyland prepared by the Secretariat
LC Paper No. CB(1)503/07-08(01) *(tabled at the meeting and subsequently issued via e-mail on 2 January 2008)*	-	Speaking note of Mr Bill ERNEST, Managing Director of Hong Kong Disneyland)

Briefing by the Administration

26. At the invitation of the Chairman, the Secretary for Commerce and Economic Development (SCED) briefed members on the operation and performance of HKD in the past year as well as its future development. He remarked that HKD was one of the Government's strategic initiatives for invigorating tourism and for positioning Hong Kong as a premier destination for family travel. In 2006, the number of overnight family visitors and visitors under the age of 16 had increased by 15.8% and 23.5% respectively as compared to 2005. 36% of overnight family visitors had brought along their children to Hong Kong, up from 26% in 2005. HKD provided a world-class theme park with quality family recreational facilities and helped anchor this important market segment. Referring to the Administration's responses to LegCo questions on the economic benefits of HKD raised recently, SCED recapped that notwithstanding the benefits brought by HKD, its first two years of operation was not satisfactory. The Government, being a majority shareholder, would continue to urge the Park management to formulate cost-effective business strategies, improve the Park's operational efficiency and work more closely with the local travel trade, with a view to harnessing the full economic potentials of the international theme park.

27. In this connection, members noted that HKD was owned by a joint venture company, Hongkong International Theme Parks Limited (HKITP), with Government and The Walt Disney Company (TWDC) being the shareholders. HKITP operated under the supervision of a Board of Directors (HKITP Board) comprising five Government directors, two independent non-executive directors appointed by the Government and four Disney directors.

Presentation by HKD

28. At the invitation of the Chairman, Mr Bill ERNEST, Managing Director of HKD highlighted that TWDC was committed to its investment in HKD and was confident that the project would be a long-term success for both the people of Hong Kong and TWDC. He then highlighted the salient points in his opening remarks

(LC Paper No. CB(1)503/07-08(01)), as follows:

(a) Since its grand opening in September 2005, HKD had received over 5 million visitors in the first year of operation and over 4 million in the second year. HKD was now working towards achieving two important goals of serving as a magnet for family tourism and building Hong Kong as a premier international tourist destination;

(b) HKD appreciated the need to focus on building attendance and enhancing the popularity of the Park, as well as meeting the challenges brought by the competitive tourism landscape in Macau and the Mainland. While the lower than expected second-year attendance was probably due to hyper-consumption in the opening year and the unique seasonality factor in Hong Kong, HKD had recorded solid growth from October to December 2007, with a double-digit increase over the same quarter of the previous year. Over 90% of Park and hotel guests were satisfied with their experience at HKD and intended to visit the Park again. Moreover, HKD's annual pass programme had sold more than 110 000 passes since it was launched in October 2006;

(c) To sustain the momentum of growth and in response to market feedback, HKD had set both near-term and long-term expansion plans. In the near-term, apart from rolling out a colorful calendar of events, HKD would open its iconic attraction "it's a small world" in the following spring and launch four new entertainment initiatives throughout 2008, viz. "High School Musical", "Muppet Mobile Lab", "Nemo Submarine 'Turtle Talk'" and "The Art of Animation". In the long-term, TWDC had high confidence in the potential of HKD and was in the process of discussing with the Government the investment and expansion plans; and

(d) On community services, HKD had contributed 15 000 hours of community service through its VoluntEARS, reached out to children and elderly alike in community programmes and hired over 100 persons with disabilities (PwDs) since opening, including those under a disability apprenticeship programme piloted in 2006. HKD had also committed to engaging 160 students from the Institute for Vocational Education for internship at full pay and granted 12 scholarships for students at the Academy for Performing Arts in the 2007-2008 academic year. So far, 73 000 students in Hong Kong had committed to environmental protection under the Disney Environmentality Challenge programme to raise awareness for the environment.

Discussion

Park operation

29. Noting SCED's earlier remark that the Government was not expert in running commercial business and had therefore entrusted the management and operation of HKD to the HKD Management Limited, Mr WONG Kwok-hing expressed concern about the role played by the five Government directors and two independent non-executive directors in HKITP Board.

30. SCED said that as he pointed out in the reply to a LegCo question at the Council meeting on 19 December 2007, since the Government did not possess the expertise in running the Park, it was not appropriate for the Government to micro-manage HKD. However, the five Government directors had played an important role in monitoring the performance and development of the Park by providing advice on the local operating environment and marketing strategies. In view of the unsatisfactory attendance of the Park, the Government directors considered that the Park should improve its performance and had therefore urged the Park management to critically review the operation of the Park with a view to enhancing its operational efficiency and revamping its marketing and promotion strategies. SCED stressed that the Government directors would continue to monitor the performance of the Park closely and reflect the views of the public and Members on its performance to the Park management.

31. On Miss TAM Heung-man's suggestion that the Government should consider appointing people with relevant experience in business management and operation as directors to HKITP Board, SCED advised that the HKITP Board had already appointed Mr Payson CHA Mou-sing who was a successful businessman and the former Chairman of the Ocean Park Corporation, and Mr Philip CHEN Nan-lok, also the former Chairman of the Ocean Park Corporation and former Chief Executive Officer of Cathay Pacific, as independent non-executive directors to HKITP Board. He believed that the valuable advice and relevant experience of the two non-executive directors would benefit HKD.

32. Noting that the Government was not contented with the performance of HKD, Miss TAM Heung-man asked whether the Administration would consider terminating the agreement with TWDC and the factors which the Administration would take into account in such consideration. SCED re-iterated that notwithstanding the unsatisfactory performance of HKD in the first two years, HKD was one of the Government's strategic initiatives for invigorating tourism. As a long-term investment of Hong Kong, SCED stressed that it was necessary to allow time for HKD to adapt to the local operational environment and make improvement with a view to harnessing the full economic potential of the Park. To this end, the Administration would continue to provide support to the operation of HKD.

33. In reply to Mr CHAN Kam-lam's enquiry about the occupancy rate of the two hotels at HKD, Mr Bill ERNEST said that the occupancy rate had improved by

more than 5% over the past year. Moreover, HKD had identified the Meetings, Incentives, Conventions and Exhibitions business as a potential growth area for HKD's hotel operation. In response to Mr CHAN's further enquiry, Mr ERNEST said that the occupancy rate of HKD hotels was close to the overall hotel occupancy rate in Hong Kong which was over 80%.

34. Noting that local visitors to the Park had dropped from 42% of total attendance in 2005-2006 to 31% in 2006-2007, Mr Fred LI sought information on measures to be taken to boost the number of local visitors.

35. Mr Bill ERNEST remarked that there was a shift of attendance from locals to international and Mainland visitors in the second year of HKD's operation. From the experience over the past two years of operation, HKITP had identified certain areas where further improvements were required. For example, HKITP had enhanced its calendar of special events to attract local visitors. The special events - "Haunted Halloween" and "Sparkling Christmas" had proved to be extremely popular. Taking into account the fact that family visitation was highly seasonal, subject mainly to school holiday schedules, HKITP had identified young adults as a new target market segment. Moreover, at end September 2006, HKD had launched an Annual Pass programme offering greater flexibility and convenience for guests who made repeated visits to the Park. The programme had been progressing on target, with the number of passes sold exceeding 110 000.

36. Mr Abraham SHEK reiterated his earlier suggestion for HKD to form alliances with Ocean Park and other local scenic spots in offering city passes for visitors with a view to boosting park attendance and enhancing the overall tourism development in Hong Kong.

37. Mr Bill ERNEST said that HKD had acted on the suggestion and engaged in discussions with the parties concerned, including Ocean Park, to devise a package ticket scheme for tourists to access multiple attractions. It was also considering offering similar package tickets to visitors who might access multiple locations, such as HKD, the Peak, and Ngong Ping 360. In this connection, C for Tourism advised that about one-third of the overnight visitors in 2005-2006 had visited both HKD and Ocean Park. As such, the suggestion could certainly help boost attendance to both theme parks. According to her understanding, HKD and Ocean Park were considering practical issues associated with package tickets, such as the agent responsible for selling the tickets and the sharing of the ticket profit, to ensure that the scheme did not favour a particular attraction.

38. Noting the Administration's and HKD's response, Mr Abraham SHEK and the Chairman considered that HKTB could act as co-ordinator for devising city passes for multiple tourist attractions. In response, SCED agreed that the relevant parties should further examine the possible implementation of the city pass system.

Admin

39. Mr WONG Kwok-hing sought details on the management fees and royalties payable to TWDC. In reply, SCED said that the Government had raised concern about the performance of the Park with the management company and

urged it to continue to improve the operational efficiency and devise cost-effective marketing strategies. Subsequently, TWDC had agreed to waive the management fees and defer royalties for two years (i.e. 2007-2008 and 2008-2009) until HKITP improved its financial condition. As the amount of the management fees and royalties were commercially sensitive information, SCED said that the Administration could not disclose the figures.

Expansion for HKD and associated funding proposals

40. Referring to the public concern about the expansion plans and long-term financial arrangements of HKD, Mr Fred LI urged the Government to increase transparency on the matter and provide information on its plan to inject funds into the Park to enable Members to consider the relevant proposal. Sharing the view, Miss TAM Heung-man remarked that Members could only evaluate HKD's performance when relevant information was available. She added that in seeking funding approval from LegCo, it was necessary for the Administration to provide information on the financial performance of HKITP, without which Members would not be able to consider the proposal in an objective manner.

41. SCED assured members that if the Government decided to inject funds into HKD, in seeking the approval of the Finance Committee for the funding proposal, the Administration needed to provide the necessary information on the Park. Subject to the consent of TWDC, the Administration would disclose relevant information including performance of the Park, its financial prospect, and the financing options for its expansion plans, to facilitate Members' consideration.

42. While welcoming TWDC's initiative to discuss with the Government on HKD's expansion plans, which would help enhance the appeal of the Park to visitors, Mr SIN Chung-kai urged TWDC to consider increasing its investment in HKD should the Government decide not to inject further funds into the Park. In this connection, he enquired about the time required by the Government for examining the financial options. Mr Fred LI echoed the view and considered that in order to demonstrate its long-term commitment to HKD, TWDC should inject more funds than the Government in meeting the future operational and development needs of the Park.

43. On the long-term financial arrangement of HKD, SCED advised that the Government and TWDC were still at the initial stage of negotiation and the Government had yet to come up with any proposals. Nevertheless, He assured members that the Government would exercise due prudence in ensuring the proper use of public resources and consider the matter taking into account a number of factors, including economic benefits to Hong Kong, appeal of the new attractions to local residents and visitors, etc. SCED explained that as the negotiation involved many complex issues and the need to examine adding new provisions in the Project Agreement, the process would take some time. Moreover, ample time should be allowed for both sides to fully assess the various options and discuss the financial arrangements. Nonetheless, the Administration recognized the need to conduct a thorough study on all related issues as soon as practicable.

44. Mr Albert CHAN was pleased to note that the Government had not taken a position on the injection of funds into HKD. Given the poor performance of HKD attributed by its faulty design and the small size, he stressed the need for the Administration to exercise great prudence in studying the financial proposals put forward by TWDC, in particular the cost-effectiveness of the proposals, the financial prospect of the Park in view of possible development of another Disneyland in Shanghai, and the opportunity cost of using the site for the development of other theme parks. Taking note of Mr CHAN's view, SCED assured that the Administration would certainly conduct a comprehensive study on the proposals.

45. Mr Howard YOUNG said that the tourism industry had all along supported the development of HKD. He was pleased to note that the attendance figure had put HKD within the top 20 theme parks in the world. Mr YOUNG agreed that expansion of HKD would address public's concern about the small size of the Park and limited visitor experience due to few number of attractions. He enquired whether the expansion plans under consideration was within the Phase 1 Site.

46. In response, SCED advised that the Phase 1 Site covered about 126-hectare of land which some 80 hectares had been developed. The current negotiation between the Government and TWDC on the Park's expansion and financial arrangements was related to the development of the remaining 40 hectares. While it was premature at this stage to consider the details of the attractions to be developed under the expansion plans, SCED took note of Mr YOUNG's view that the new attractions should be unique and different from those of the Disneyland Park in Tokyo in order to enhance the appeal to visitors.

47. Noting that it was not uncommon for a city to have more than two theme parks, Mr SIN Chung-kai enquired whether the Administration would consider developing another theme park at the Phase 2 Site adjacent to HKD. SCED said that all related matters would be considered alongside the study on the expansion plans of HKD and its long-term financial arrangement.

48. Mr CHAN Kam-lam noted that HKD had recently negotiated with the commercial lenders to re-schedule its commercial term loan facility and the revolving credit facility. He sought explanations for advancing the maturity of the loan facility from 2015 to 2008 and reducing the amount of credit facility. He was concerned whether the lenders' action was due to their dwindling confidence towards the performance of HKD. In response, Mr Bill ERNEST advised that HKD had initiated discussion on loan agreements with banks which were very supportive of the Park. HKITP and its shareholders were at the moment considering matters relating to loan re-payment. He elaborated that the revolving credit facility of $1 billion was reduced to $800 million as the latter amount was already sufficient to meet the operational needs of HKD. Moreover, opportunity was also taken to advance the repayment schedule with a view to reducing interest expenses.

Employment for PwDs at HKD

49. Dr Fernando CHEUNG was pleased to note that HKD had fulfilled its corporate social responsibility by, inter alia, offering employment opportunities to PwDs. He sought information on the ratio of PwDs currently employed by HKD among its 5 000-strong workforce. Given the remote location of HKD, Dr CHEUNG was concerned whether HKD had provided transportation allowance for staff receiving low monthly income, say less than $8,000.

50. On the salary level of HKD staff, Mr Bill ERNEST advised that the majority of employees at HKD earned a monthly pay of $9,000 or above. HKD had also arranged monthly package for its staff with one of the transportation service providers. As regards employment of PwDs, Mr ERNEST said that HKD had employed over 100 disabled persons since opening, including those under a disability apprenticeship programme piloted in 2006. While PwDs currently employed by HKD was less than 1% of the workforce, Mr ERNEST remarked that HKD remained committed to the employment of PwDs and planned to double the current number by 2008 when more PwDs would be appointed to work full-time or part-time at various positions in the Park.

51. Pointing out that the ratio of PwDs working in HKD was less than 1%, which was far below the ratio of over 5% PwDs employed by large corporations in advanced economies such as Japan and France, Dr Fernando CHEUNG expressed his dissatisfaction and hoped that HKD would actively consider increasing the employment of PwDs and the places under the disability apprenticeship programme. Mr Abraham SHEK expressed appreciation for HKD's effort in providing employment opportunities to PwDs and its contribution on the corporate social responsibility fronts. He also encouraged HKD to continue its good work in both regards.

Way forward

52. Summing up, the Chairman re-iterated members' concern about the expansion plans of HKD and the possibility of the Government injecting funds into the Park. He also mentioned the contribution of HKD, noting that it had brought happiness to the guests who had visited the park since opening. He urged the Administration to exercise prudence to ensure that HKD would continue to be a popular theme park bringing happiness to its visitors while maintaining its long-term healthy financial position and viability.

53. SCED stressed that in studying the long-term financial arrangement for HKD, the Government would consider various factors, such as the economic benefit for Hong Kong, the appeal of new attractions in the Park to local residents and visitors, and the ways to improve the management, transparency and viability
Admin of the Park. The Administration would report to the Panel at the appropriate time the outcome of the study and the details of the negotiations with TWDC.

VI Annual tariff reviews with the two power companies

(LC Paper No. CB(1)457/07-08(07) *(tabled at the meeting and subsequently issued via e-mail on 24 December 2007)*	-	Presentation materials provided by The Hongkong Electric Company Ltd.
LC Paper No. CB(1)457/07-08(08) *(tabled at the meeting and subsequently issued via e-mail on 24 December 2007)*	-	Presentation materials provided by CLP Power Hong Kong Ltd.)

Briefing by the Administration

54. In view of public concern about the negotiation with the two power companies on the next Scheme of Control Agreements (SCAs), the Secretary for the Environment (SEN) took the opportunity to update members on the latest progress. He said that since his last report at the Panel meeting on 22 October 2007, the Administration had held several rounds of discussion with the two power companies and the process of negotiation was complex and arduous. So far, the Administration had yet to reach agreement with the power companies on the core terms of the new SCAs with regard to shortening the duration of the agreements from the existing 15 years to ten years, with an option for the Government to extend for five years after review, lowering the permitted rate of return of the two power companies from the existing 13.5-15% on Average Net Fixed Assets (ANFA) to an average of below 10%, and linking the permitted rate of return of the power companies to their achievement of the emissions caps stipulated by the Environmental Protection Department through the Air Pollution Control Ordinance (Cap. 311). Notwithstanding that the deadline for concluding the negotiation was drawing near, the Administration would strive to work hard towards reaching agreement with the power companies. However, should both sides fail to reach an agreement, the Administration would proceed to introduce a Bill into LegCo in early 2008 as planned for the regulation of power supply after expiry of the existing SCAs so as to ensure the public would continue to enjoy reliable, safe and efficient electricity supply at a reasonable price.

Presentation by The Hongkong Electric Company Limited (HEC)

55. Mr K S TSO, Group Managing Director of HEC highlighted that in the first 11 months of 2007, free on board (FOB) coal prices had increased by 65% while freight charges for coal had jumped by 80%. As 85% of HEC's electricity output came from coal-fired generation, it was necessary for HEC to increase the Fuel Clause Surcharge by 4.6 cents per unit of electricity. Moreover, to minimize tariff increase, the Basic Tariff had been frozen since 2005. However, the Average Basic Tariff would be increased by 2.6 cents per unit to reflect HEC's continuous investments in power generation, transmission and distribution as well as environmental work. As such, the Average Net Tariff would be increased by 6% for 2008. Following the adjustment, 70% of HEC's domestic customers who used 500 units of electricity or less monthly would have their charges increased by

approximately $30 or less a month, while for 70% of non-domestic customers who used 1 700 units or less monthly, the increase would be approximately $125 or less a month. HEC would continue to provide assistance to those in need through its Concessionary Tariff Schemes, including the elderly, disabled, unemployed and single-parent families. Mr TSO said that the tariff increase had been contained to the lowest possible level with a view to balancing the interests of customers and shareholders. HEC had paid strenuous effort during the past and present annual tariff reviews to minimize tariff increase such that shortfalls in HEC's permitted returns had been recorded since 2003. Notwithstanding that 2008 was the final year of the current SCA, HEC remained firmly committed to providing its customers with safe and reliable electricity while contributing to air quality improvement through various emission reduction initiatives.

56. With the aid of power-point, Mr C T WAN, Director & General Manager (Corporate Development) of HEC introduced HEC's tariff adjustment for 2008 as follows:

Tariff components (cents/kWh)	Current	Changes (+/-)	Effective 1 January 2008
Average Basic Tariff	114.3	2.6	116.9
Fuel Clause Surcharge	5.9	4.6	10.5
Average Net Tariff	120.2	7.2 (+6%)	127.4

He highlighted that rapid global economic growth, in particular in the Mainland and India, had resulted in surge in the demand for coal in the past three years. For the first 11 months of 2007, the FOB price of coal from Australia and Indonesia had increased from about US$51/MT to about US$84/MT while the freight charges had increased from about US$15/MT to about US$27/MT. The cost, insurance and freight (CIF) price of coal had thus increased from about US$66/MT to about US$111/MT, i.e. an increase of about US$45/MT or 70%. As the increase in coal price of US$1/MT could roughly translate to an increase in Fuel Clause Surcharge by HK0.32 cents per unit, an increase in coal price of US$45/MT would bring about an increase in Fuel Clause Surcharge by HK14.4 cents per unit. To minimize the increase in Fuel Clause Surcharge, HEC had used flexible sourcing and long-term contracts to lower the increase in the CIF price of coal to US$28/MT. In addition, HEC had also lowered the weight of coal in fuel mix and used Fuel Clause Account transfers to further lower the increase in Fuel Clause Surcharge to HK4.6 cents per unit. Mr WAN remarked that according to the Census and Statistics Department, electricity charges accounted for 2.02% of the Consumer Price Index (CPI). Moreover, the increase in electricity prices since 1983 was the lowest among the increases in other services and wages.

Presentation by CLP Group (CLP)

57. Mrs Betty YUEN, Managing Director (CLP Power) remarked that all along, CLP had sought to manage its tariff responsibly through rigorous cost control. While its Basic Tariff for 2008 would continue to be frozen, the Fuel Clause would be adjusted upward by 3.9 cents per unit of electricity due to continued mounting cost pressures led by soaring international fuel prices, including both coal and natural gas. She said that this was the first tariff increase in ten years as CLP had utilized $4 billion in total from the Development Fund to alleviate tariff increase pressure in the past nine years. With the transfer of $670 million in the form of a special rebate to smooth out tariff increase for 2008, the balance of the Development Fund would be further reduced. As such, it would result in an Average Net Tariff of 91.1 cents per unit of electricity for 2008, up 3.9 cents from 2007. She remarked that after the adjustment, CLP's tariff still remained very competitive and reasonable when measured against most metropolitan cities with a highly reliable power supply.

58. With the aid of power-point, Mr S H CHAN, Planning Director (CLP Power) highlighted CLP's tariff adjustment for 2008 as follows:

Tariff components (cents/kWh)	Current	Changes	Effective 1 January 2008
Average Basic Tariff	88.1	--	88.1
Fuel Clause Surcharge	2.0	+3.9	5.9
Scheme of Control Rebate	-1.1	+0.3	-0.8
2008 Special Rebate*	-1.8	-0.3	-2.1
Average Net Tariff	87.2	3.9	91.1 (+4.5%)
** replacing 2007 Special Rebate*			

He highlighted the fuel cost and non-fuel cost challenges faced by power companies. Since 2002, the international coal and oil prices as well as freight rates had risen by 200% and 700% respectively. CLP had been able to stabilize fuel charges through effective contract and commercial management. Substantial increase in the prices of fuels had created added pressure not only on the company's power generation but also the materials and supplies applied throughout its supply chain. For example, copper price and the prices of other primary commodities had since 2002 increased by 400% and 70% respectively. CLP managed to freeze Basic Tariff through rigorous cost control and enhanced operating efficiencies. On the use of CLP's reserve accounts, Mr CHAN said that continuous increase in fuel costs had put pressure on the Fuel Clause Account which was in deficit at present. It was therefore necessary to increase the Fuel Clause charge by 3.9 cents per unit to bring the Account back to balance. Over the past nine years, CLP had utilized $4 billion from the Development Fund to alleviate cost pressure. A transfer of

$670 million from the Development Fund in the form of a Special Rebate of 2.1 cents per unit would be provided to minimize net tariff increase in 2008. In reviewing annual tariff adjustment, CLP had fully considered and balanced several major factors, including the increasing fuel costs and decreasing local sales growth. While the decrease in the Scheme of Control Rebate of 0.3 cents per unit would be offset by the 2008 Special Rebate, the Average Net Tariff for 2008 would be increased by 3.9 cents per unit reflecting the required increase in fuel clause charge. On the impacts to customers, Mr CHAN said that 70% of residential and non-residential customers each would experience monthly tariff increase of $15 or less and $56 or less respectively. He highlighted that CLP's residential tariff compared favourably to those of metropolitan cities, some of which had already opened up the electricity markets. Its supply reliability was also among the world's best, outperforming Paris, New York, London and Sydney. While the power sector continued to face tremendous challenges from the unprecedented increase in worldwide energy costs, CLP would continue to provide quality service to its customers, operate in a responsible manner, improve efficiency, and control cost.

Discussion

Tariff adjustment for 2008

59. Mr WONG Kwok-hing stated his strong dissatisfaction against tariff increase to be imposed by the two power companies for 2008. In this connection, he said that members of the Hong Kong Federation of Trade Unions were also staging a petition outside the LegCo Building to express their objection. Mr WONG was disappointed that despite the two power companies were making huge profits, they would impose tariff increase at rates higher than the inflation rate of 3.2% as at October 2007, and considered the tariff increase very unfair to the general public. As revealed in media reports that the power companies were attempting to enlarge the asset base so that even with a lower permitted rate of return in the new SCAs, the companies could still avoid tariff reduction, Mr WONG called on SEN to stand firm and turn down the tariff adjustment proposals by the two power companies.

60. In response, SEN explained that under the existing SCAs, the Government could not veto tariff increase so long as the proposed adjustment was within the permitted rate of return stipulated in the agreements or due to the increase in fuel cost. Nevertheless, the Administration had worked hard to alleviate the impacts of the adjustment. In the annual review of the proposed tariff adjustment of the two power companies, the Administration, with the support of external electricity consultants, had carefully examined the financial information and justifications provided by the companies. The Administration had also required CLP to utilize the balance in the Development Fund as far as possible to smooth out tariff increase. Taking into account the possible impacts of the tariff increase to the public, the Administration had persuaded the companies and succeeded in convincing them to reduce the rates of increase. The Government would continue to monitor the situation. Should the adjustment brought about obvious surplus, the

Administration would ensure that the surplus would be credited to the stabilization fund and eventually be returned to the customers.

61. In view of the higher than inflation tariff increase, Mr CHAN Kam-lam urged the power companies to consider lowering the rates of increase. He opined that while the upward adjustment seemed justifiable on grounds of upsurge in fuel prices and freight charges, as the power companies were making huge profits, due consideration should be given to the affordability of the general public since electricity was among the daily necessities.

62. Mr Fred LI expressed disappointment on the tariff increase of the two power companies. Referring to HEC's claim that there had been shortfalls in the company's permitted rate of return since 2003, Mr LI sought information on the actual profit forgone and enquired whether the tariff adjustment for 2008 would bring about return up to the permitted level. Noting that HEC would increase both the Average Basic Tariff and Fuel Clause Surcharge in 2008, he urged the company to consider lowering the increase on the Average Basic Tariff.

63. In response, Mr K S TSO advised that the profit forgone since 2003 had amounted to over $3 billion. He further highlighted the need for HEC to balance the interests of both its shareholders and customers when conducting tariff review. Given that HEC had frozen its Average Basic Tariff for the last three years, it was considered appropriate to raise it slightly by 2.2% for 2008 to reflect increase in operating costs.

64. As for the tariff adjustment of CLP, Mr Fred LI was disappointed that despite its effort in freezing the tariff for the past nine years, CLP had decided to raise tariff in 2008 when it was the final year of the current SCA. Noting that coal only occupied about one-third of the fuels used by CLP in electricity generation, Mr LI was not convinced about the increase of 3.9 cents across the board in CLP's Fuel Clause charge. On the use of fuel for electricity generation, Mrs Betty YUEN said that natural gas occupied about one-third of the fuels used by CLP. She explained that the prices of coal and natural gas were inter-related. It was the international established practice to adjust the contract price for natural gas annually with reference to changes in the international coal prices, the latter of which had almost tripled over the past five years. The upsurge in fuel prices had hence added tremendous cost pressure on CLP.

65. Mr Albert CHAN expressed grave concern that the two power companies had been using "commercial sensitivity" as an excuse to refuse disclosing information relating to their profits, which might be as high as tens of billion dollars. He sought information from the two companies on the estimated level of profits to be brought about by the tariff increase for 2008. In response, Mr K S TSO advised that HEC could not disclose information on the company's future profits. Mrs Betty YUEN added that listed companies were prohibited from disclosing information on forecast profits. In reply to Mr CHAN's enquiry, SEN remarked that the Government was not in a position to disclose the forecast profits of the two power companies. As regards the permitted rate of return in the current

SCAs, he said that the power companies were entitled to receive a 13.5% return on their ANFA with an additional 1.5% for assets financed by shareholders' funds. Such information was available in the companies' annual reports.

66. Ir Dr Raymond HO remarked that electricity supply service was a capital-intensive industry involving long payback period. Given the upsurge in international fuel prices and freight charges, he considered it reasonable for the two power companies to adjust the tariff upward in maintaining a reliable and efficient electricity supply service. He further noted that after the adjustment, CLP's tariff still compared favourably to other cities, and according to HEC, the increase in electricity prices since 1983 was the lowest when compared to rises in CPI, and increases in other areas such as wages and transportation services. Moreover, it would continue to offer concessionary tariff, such as offering 60% discount for first 200 units each month, to customers in need.

67. Dr Fernando CHEUNG noted with concern that being public utilities, the two power companies were actually monopolizing the electricity market and making huge profits at the expense of the interest of the general public. Although the power companies were regulated by SCAs, little could be done by the Administration to stop the tariff increase and LegCo Members could only express their dissatisfaction. Dr CHEUNG was particularly concerned about the impact of the tariff adjustment on the low-income families and enquired whether they were eligible for concessionary tariff offered by the two power companies.

68. Mr C T WAN advised that concessionary tariff was available to customers who were eligible for public assistance. Applications for HEC's Concessionary Tariff Schemes were processed through the recommendation of the Hong Kong Council of Social Services. The Schemes had been in operation for quite some time and were well known among social welfare professionals. If Dr CHEUNG required further information, he undertook to provide it after the meeting. Mrs Betty YUEN said that all along, CLP had offered concessionary tariff to elderly people eligible for public assistance.

69. Mr James TIEN expressed disappointment towards the tariff increase imposed by the two power companies, the rates of which were higher than the prevailing inflation rate. Notwithstanding the justifications for the increase put forward by the companies, he sought clarification from the companies on whether they would consider imposing tariff increase above the permitted rate of return if there was no provision in this regard in the current SCAs.

70. Mr K S TSO re-iterated that the return for HEC had fallen short of the permitted level under the current SCA for the past five years. The tariff increase for 2008 was necessary to address increasing operating costs, mainly arising from upsurge in coal prices and freight charges which was beyond the control of the company. Mrs Betty YUEN explained that under the existing framework of SCA, the Basic Tariff was adjusted according to the operating costs and permitted return. She said that for 2008, CLP's Basic Tariff would remain unchanged. The Average Net Tariff was adjusted upward due to increase in the Fuel Clause charge to cover

increasing fuel costs. Hence, the tariff increase for 2008 had nothing to do with the permitted rate of return.

71. Mr Abraham SHEK commended the efforts of SEN in upholding the spirit of contract while lowering tariff increase imposed by the power companies in conducting the tariff review for 2008. Mr SHEK sought information on the existing balance of CLP's Development Fund and recapped his concern about the disposal of the Fund. He remarked that the monies in the Development Fund indeed belonged to CLP's customers, and hence should be returned to them upon the expiry of the current SCA. In this connection, as CLP had been utilizing funds in the Development Fund to alleviate tariff increase pressure in the past nine years, Mr SHEK was concerned that CLP's shareholders had indeed earned the permitted level of return at the expense of the Fund.

72. In response, Mrs Betty YUEN highlighted that under the existing SCA, CLP had obligation to make investment on electricity supply facilities to meet present and future electricity demand. Hence, it was fair for the shareholders to receive reasonable return on their investment. On the balance of the Development Fund, Mrs YUEN said that the balance had decreased from $2.9 billion in January 2007 to $1.7 billion by end June 2007. $670 million would be transferred from the Fund to smooth out tariff increase in 2008 and the sum would be returned to customers in the form of a special rebate. Based on current forecast, she anticipated that the balance of the Fund would continue to decrease, and towards the expiry of the current SCA, the balance could only sustain the cashflow requirement of the company for about a week. In reply to Mr Howard YOUNG's enquiry on whether CLP would exhaust the balance in the Fund before the commencement of the new SCA, Mrs YUEN stressed that the Fund would be used to stabilize tariff by offsetting the rise in fuel costs. CLP's shareholders had no financial gain from the Fund.

73. Mr SIN Chung-kai sought SEN's views on the performance of the two power companies in respect of tariff review and the rate of tariff increase for 2008. As regards CLP's claim on the favourable position of its tariff as compared with metropolitan cities such as Berlin, Rome, New York, and Amsterdam, he was concerned that the higher tariffs in these cities were due to the appreciation in their currencies by 20% to 30% in the past years, and the use of renewable energy for power generation. He urged that CLP should discount these two factors in making comparison on tariffs in future so as to avoid misleading the public.

74. On the annual tariff exercise, SEN re-iterated that the Administration had conducted the review carefully in accordance with the SCAs. The Administration had spared no effort to discuss with the two power companies within and outside the framework of the current SCAs in finalizing the adjustment level and had successfully convinced the companies to reduce the tariff increase.

New SCAs with the power companies

75. Miss TAM Heung-man was concerned that the two power companies were trying to reap more profits before the expiry of the current SCAs in anticipation that the level of permitted return would be lowered in the new SCAs. Mr K S TSO stressed that HEC had conducted the tariff adjustment review for 2008 in the same way as in past years.

76. Noting from media reports that the Government had approved the construction of the $10.2-billion Liquefied Natural Gas (LNG) Receiving Terminal proposed by CLP, Miss TAM Heung-man was concerned that the investment would enlarge CLP's ANFA and enable the company to reap more profits. As a result, even if the permitted rate of return in the new SCA could be reduced to a single-digit, the benefit to customers in the form of lower tariff would be offset. In this connection, Mr Albert CHAN re-iterated his objection to the construction of LNG Receiving Terminal at South Soko Island by CLP.

77. SEN remarked that it would be inappropriate for him to comment on the relevant media reports. As for CLP's proposed LNG Receiving Terminal, he clarified that while CLP had obtained the Environmental Permit for the construction of the project, it only dealt with the environmental acceptability of the project. The Government was still reviewing the proposal in conjunction with a professional energy consultant, which covered all relevant factors including the need for the project, the distribution and development of natural gas in the region, its financial impacts, and other planning issues. He stressed that the LNG Receiving Terminal project would not be factored into the negotiation for the new SCA with CLP.

78. On the proposed LNG Receiving Terminal, Mrs Betty YUEN remarked that given robust global economic growth in recent years, the cost of capital works projects had risen tremendously. As such, CLP believed that it would help contain the cost for the LNG Receiving Terminal project if Government's approval could be granted as early as possible. Regarding the concern about growth in CLP's fixed assets, Mrs YUEN advised that for the past ten years, CLP had made a total investment of $50 billion in generation, transmission and distribution facilities in order to maintain a reliable and quality supply of electricity to customers. Nonetheless, CLP had been able to freeze tariff during the period through stringent cost control measures.

79. Mr CHAN Kam-lam remarked that the Government officials responsible for signing the current SCAs with the two power companies 15 years ago should bear the blame for the high tariff increase. He urged SEN to stay firm in negotiating with the power companies to come up with new SCAs to ensure fair and reasonable tariff. Given that the power companies were running a public utilities business serving the public, Mr CHAN urged the companies to make concessions with a view to reaching the new SCAs timely and obviating the need for the Government to regulate the electricity market by legislation. Mr Fred LI also called on SEN to stay firm in the negotiation with the two power companies for the new SCAs with a view to lowering the permitted rate of return to a

single-digit.

80. Ir Dr Raymond HO recapped his reservation about the Administration's plan to introduce legislation to regulate the post-2008 electricity market should it fail to reach agreement with the two power companies. He opined that in maintaining a good business environment, the Administration should strive to uphold the spirit of contract and reach new SCAs with the power companies through negotiation. Otherwise, there might be adverse impacts on electricity tariff in future. Mr James TIEN shared the view. Mr Albert CHAN however opined that there would be no conflict between regulating the electricity market through legislation and entering into new SCAs with the two power companies.

81. In response, SEN advised that the Government would continue to work hard towards reaching agreement with the power companies on the new SCAs. Failing this, the Administration needed to resort to other means, such as by way of legislation, to safeguard consumers' interest in the post-2008 electricity market.

82. Noting that HEC had adjusted its tariff upward by an accumulated 13% for 2007 and 2008, Mr SIN Chung-kai urged the Administration to take this into account when finalizing the single-digit rate of return. He also remarked that there would be a marked difference regarding the impact on tariff brought about by a rate of return of 9.9% or 9.5%. SEN re-iterated the Government's stance in ensuring emission reduction, lowering the permitted rate of return of the power companies and preparing to further open up the electricity market in the next regulatory period.

VII Any other business

83. There being no other business, the meeting ended at 6:25 pm.

Council Business Division 1
Legislative Council Secretariat
22 February 2008