

By fax: 2596 0729

CB1/PL/FA
2869 9244
2121 0420
email address: asit@legco.gov.hk

19 July 2010

Secretary for Financial Services and the Treasury
(Attn: Ms Alice LAU)
Financial Services and the Treasury Bureau
(The Treasury Branch)
4/F, Main Wing, CGO
Lower Albert Road
Hong Kong

Dear Ms LAU,

Finance Committee

45CG - District Cooling System at the Kai Tak Development

The District Cooling System (DCS) at the Kai Tak Development was endorsed by the Public Works Subcommittee (PWSC) on 7 May 2009 and approved by the Finance Committee (FC) on 5 June 2009 at an estimated cost of \$1,671 million in money-of-the-day prices. At the meeting of the Panel on Environmental Affairs (EA Panel) on 28 June 2010, the Administration informed Members that the Administration would adopt a revised procurement strategy for the development and operation of the DSC, i.e. carrying out the project under three phases instead of a single contract as originally planned and specified in the relevant submission to PWSC (i.e. PWSC(2009-10)24), while the scope of works of the project would remain unchanged.

According to the Administration's paper for the EA Panel meeting on 28 June 2010, the Administration plans to invite tenders for the works under Phases I and II as soon as possible. If the returned tender prices for Phases I and II as well as the estimated contract sum for Phase III are expected to exceed the approved project estimate, the Administration will update the EA Panel on the

tender returns and seek PWSC/FC's approval for implementing Phases I and II before awarding the respective contracts. The Administration will seek separate PWSC/FC approval for increasing the approved project estimate to cover Phase III after the return of relevant tenders.

The FC Chairman has taken note of the new development and the Administration's planned course of actions for taking forward the project, which is re-confirmed in the letter from the Secretary for the Environment (SEN) to the FC Chairman dated 16 July 2010. Although it is stated in the letter from SEN that the changes to the procurement strategy would not affect the validity of FC's approval for the project given on 5 June 2009, the Chairman has expressed concern whether it is appropriate for the Administration to proceed with the project under an entirely different procurement strategy, without first submitting a revised funding proposal on the project to PWSC and FC for endorsement/approval. In this connection, the Chairman notes that it has been the established practice that where a project is to be implemented in phases, the Administration would, before proceeding with each phase of the project works, submit a funding proposal to PWSC/FC on the relevant phase of the project. The Chairman is concerned that the Administration's plan to proceed with Phases I and II of the DCS without reverting to PWSC/FC for approval is a departure from the established practice.

The Chairman notes that the EA Panel will further discuss the DCS project on 21 July 2010, and requests that the Administration provide a written response (in both Chinese and English) on her concerns set out in this letter preferably before the Panel meeting.

With best regards,

Yours sincerely,

(Ms Anita SIT)
for Clerk to Finance Committee

- c.c. Hon Emily LAU Wai-hing, JP (Chairman of Finance Committee)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP (Chairman of Public Works Subcommittee)
Hon Audrey EU Yuet-mee, SC, JP (Chairman of Panel on Environmental Affairs)