立法會
Legislative Council

LC Paper No. CB(1)1344/11-12
(These minutes have been seen by the Administration)

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Panel on Economic Development

Minutes of meeting
held on Tuesday, 13 December 2011, at 4:30 pm
in Conference Room 1 of the Legislative Council Complex

Members present :
Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon Paul TSE Wai-chun, JP (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon Fred LI Wah-ming, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Andrew CHENG Kar-foo
Hon Vincent FANG Kang, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Starry LEE Wai-king, JP
Hon Paul CHAN Mo-po, MH, JP
Dr Hon LEUNG Ka-lau
Hon IP Wai-ming, MH
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Dr Hon Samson TAM Wai-ho, JP
Hon Tanya CHAN
Hon Albert CHAN Wai-yip

Members attending :
Hon LEE Cheuk-yan
Hon LEUNG Yiu-chung
Hon Audrey EU Yuet-mee, SC, JP
Hon LEE Wing-tat

Hon Cyd HO Sau-lan
Hon CHAN Hak-kan
Hon CHEUNG Kwok-che

Members absent : Dr Hon David LI Kwok-po, GBM, GBS, JP
Dr Hon Philip WONG Yu-hong, GBS

Public officers attending : **Agenda Item IV**

Mr Edward YAU
Secretary for the Environment

Miss Vivian LAU
Deputy Secretary for the Environment

Ms Vyora YAU
Principle Assistant Secretary for the Environment (Financial Monitoring)

Miss Linda CHOY
Political Assistant to Secretary for the Environment

Attendance by invitation : **Agenda item IV**

The Hongkong Electric Co., Ltd.

Mr K S TSO
Group Managing Director

Mr C T WAN
Director of Engineering (Planning & Development)

Mr Neil D MCGEE
Group Finance Director

Mr K M WONG
Group Manager, Finance & Accounting

CLP Power

Mr Richard LANCASTER
Managing Director

Mr P C LO
Corporate Development Director

Ms Daisy CHAN
Public Affairs Director

Mr Stephen CHOI
Strategic Planner

Ms Anthea CHENG
Senior Public Affairs Manager

Ms Alice LI
Public Affairs Manager

Clerk in attendance : Mr Derek LO
Chief Council Secretary (1)6

Staff in attendance : Ms Sarah YUEN
Senior Council Secretary (1)6

Ms Michelle NIEN
Legislative Assistant (1)6

Action

I Confirmation of minutes of meeting

(LC Paper No. CB(1)555/11-12 — Minutes of meeting held on 14 October 2011)

The minutes of the meeting held on 14 October 2011 were confirmed.

II Information papers issued since last meeting

(LC Paper No. CB(1)496/11-12(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from November 2009 to October 2011)

2. Members noted the above papers issued since the last regular meeting.

III Items for discussion at the next meeting

(LC Paper No. CB(1)554/11-12(01)	—	List of outstanding items for discussion
LC Paper No. CB(1)554/11-12(02)	—	List of follow-up actions)

3. Members agreed to discuss the following items at the Panel's January regular meeting –

(a) Hong Kong Tourism Board Work Plan for 2012-2013;

(b) Update on Hong Kong Disneyland; and

(c) Replacement/upgrading of the Vessel Traffic Service System.

IV Annual tariff reviews with the two power companies

Meeting with the two power companies and the Administration

(LC Paper No. CB(1)554/11-12(03)	—	Presentation materials provided by The Hongkong Electric Company Ltd.
LC Paper No. CB(1)554/11-12(04)	—	Presentation materials provided by CLP Power
LC Paper No. CB(1)633/11-12 (01)	—	PowerPoint presentation materials provided by the Administration
LC Paper No. CB(1)554/11-12(05)	—	Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (Background brief)
LC Paper No. CB(1)572/11-12(01) *(tabled at the meeting and subsequently issued on 14 December 2011)*	—	Letter from Hon Fred LI Wah-ming on "Annual tariff reviews with the two power companies" dated 8 December 2011)

Presentation by The Hongkong Electric Company Ltd.
(LC Paper No. CB(1)554/11-12(03) tabled at the meeting and subsequently issued via e-mail on 14 December 2011)

4. With the aid of power-point, Mr K S TSO, Group Managing Director of The Hongkong Electric Company Limited (HEC), and Mr C T WAN, Director of Engineering (Planning & Development) of HEC, briefed members on HEC's proposed tariff adjustment in 2012 and the considerations behind. Members noted that HEC's proposed adjustment was as follows:

Tariff Components	Current 2011 (Cents/kWh)	Effective 1 January 2012 (Cents/kWh)	Adjustment (Cents/kWh)
Basic Tariff	93.1	94.1	+1.0
Fuel Clause Charge	30.2	37.0	+6.8
Net Tariff	123.3	131.1	+7.8 (+6.3%)

Presentation by CLP Power
(LC Paper No. CB(1)554/11-12(04) tabled at the meeting and subsequently issued via e-mail on 14 December 2011)

5. With the aid of power-point, Mr Richard LANCASTER, Managing Director of CLP Power (CLP), and Mr P C LO, Corporate Development Director of CLP, briefed members on CLP's proposed tariff adjustment for 2012 and the considerations behind. Members noted that CLP's proposed adjustment was as follows:

Tariff Components	Current 2011 (Cents/kWh)	Effective 1 January 2012 (Cents/kWh)	Adjustment (Cents/kWh)
Average Basic Tariff	80.0	85.0	+5.0
Fuel Clause Charge	14.1	17.8	+3.7

Average Net Tariff	94.1	102.8	+8.7 (+9.2%)

Presentation by the Administration

(LC Paper No. CB(1)633/11-12(01) tabled at the meeting and subsequently issued via e-mail on 14 December 2011)

6. With the aid of PowerPoint, the Secretary for the Environment (SEN) briefed members on the major considerations of the Administration in vetting the 2012 tariff adjustment proposals submitted by the two power companies. He reported that the Executive Council (ExCo) had expressed reservation about the increase, in response to which one of the two power companies had reduced its increase rate. He assured members that the Administration would continue to urge the two power companies to reduce their rates of increase, particularly with regard to CLP over the following aspects –

(a) calculation of the Basic Tariff, in particular the increase in the operating expenditure, which was significantly higher than inflation, and the inclusion of a capital expenditure item which the Administration considered pre-mature;

(b) the level of balances in the Fuel Clause Recovery Account (FCA) and the Tariff Stabilization Fund (TSF) respectively; and

(c) the Government rent and rates anticipated to be refunded to the two power companies as a result of relevant court cases.

7. Referring to Mr Fred LI's letter dated 8 December 2011 (tabled at the meeting and subsequently issued vide LC Paper No. CB(1)572/11-12 dated 14 December 2011), SEN made the following response –

(a) There had not been any major revisions to the five-year development plans of the two power companies approved in 2008 except that in the case of CLP, additional infrastructure would be required to support the supply of natural gas to Hong Kong through the West-East Natural Gas Pipeline (the Pipeline) subsequent to the taking out of CLP's proposal for constructing a liquefied natural gas (LNG) terminal in Hong Kong costing about $10.4 billion. While part of such additional infrastructure requirement had been approved, the Administration was in the course of vetting CLP's other possible capital investment and the tariff implications. When the outcomes were available, the Administration might seek ExCo's approval to revise CLP's development plan;

(b) As to whether the power generation capacity of the two power companies had reached saturation, the Administration was carefully monitoring the situation. As such, in view of the stable electricity consumption in Hong Kong during recent years, the Administration had not approved additional generators for the power companies in the current development plan period starting from end 2008. The Administration had also expressed reservation about the inclusion of capital expenditure on additional generation systems when one of the companies worked out its 2012 tariff adjustment; and

(c) At the Administration's request to explore possible change in tariff structure to encourage energy conservation and reduce demand, one of the power companies had already proposed relevant changes to both domestic and non-domestic tariff structures.

Discussion

Tariff adjustment for 2012

8. Mr CHAN Kam-lam, Mr Fred LI, Mr LEE Wing-tat, Mr LEE Cheuk-yan, Mr IP Wai-ming, Mr Ronny TONG, Ms Starry LEE, Mr Albert CHAN, Ms Emily LAU, Ms Miriam LAU, Mr LEUNG Yiu-chung and Ms Cyd HO considered it undesirable that while making substantial profits in the past year at $7.2 billion for HEC and $10.3 billion for CLP, both power companies were still seeking to increase their tariffs at rates significantly higher than the inflation rate and the rates of wage increase of the general public. In particular, Ms LEE and Ms LAU respectively stated that the Democratic Alliance for the Betterment and Progress of Hong Kong, and the Democratic Party did not accept the two power companies' proposed rates of tariff increase, which in their view were unacceptably high. Mr LEE Cheuk-yan, Mr IP Wai-ming, Ms Miriam LAU and Ms Cyd HO expressed concern that in the current economic environment, the 2012 tariff increase would impose a heavy burden on the general public. According to Mr IP and Ms HO, the tariff increase would push up the prices of goods and services, hence creating an adverse chain effect on people's livelihood.

9. In response, Mr Richard LANCASTER of CLP made the following points –

(a) The 2012 tariff increase was necessary to prepare CLP for the new gas supply starting from 2012, when its current gas supply contract signed some 20 years before expired. As the market price of gas had since gone up by three times, and that CLP would have to use twice as much gas in future to comply with environmental targets, it was estimated that CLP's fuel cost would increase significantly. CLP's expenditure on gas was around $4 billion a year on average. The new supply of gas would boost CLP's annual gas cost by an additional $12 billion, thereby exerting unprecedented financial pressure on CLP; and

(b) CLP's 2008 five-year development plan was approved by ExCo shortly after its Scheme of Control Agreement (SCA) was renewed for a further ten years with its maximum annual permitted rate of return of 13.5% to 15% on the average net fixed assets for the year under its SCA (the permitted rate of return) reduced by some 30% to the present 9.99%. The development plan, however, had to include investments in emissions control, new gas supplies, and some additional generating facilities that would be required around the middle of the present decade.

10. Mr C T WAN of HEC made the following points –

(a) HEC had since 2006 been using gas to generate electricity. With its gas usage for total electricity generation growing from 15% to 30% in 2010, HEC's gas consumption had since 2006 doubled while the new gas contract price had increased to three to four times of the old contract price. As a result, there would be a significant increase in HEC's Fuel Clause Charge (FCC) from 25.4 cents per unit in 2009 to 37 cents per unit in 2012;

(b) Since HEC had not been recovering from customers its fuel costs in full over the years, its FCA as at mid 2011 had accumulated a negative balance of over HK$500 million. The figure was expected to double to over HK$1 billion by the end of 2011 and might further go up in 2012; and

(c) The above quoted $7+ billion profits of HEC was in fact the profits of Power Assets Holdings Limited as a whole and not only that of HEC.

11. SEN supplemented the following points –

(a) There was community consensus over the need to improve the air quality of Hong Kong. In this regard, the two power companies' spending incurred by measures to meet environmental targets would be acceptable to the public provided that it was well-justified ; and

(b) The two power companies should exercise better cost control, make full use of their TSF balances, and carry a larger negative balance of their FCA to mitigate the need for tariff increase. To help the general public tide over the current economic downturn, the Administration had already been appealing to the two companies to re-examine their tariff increase rates.

12. Noting that the Administration was still negotiating with the two power companies on their tariff increase and a consensus had yet to be achieved, Ms Starry LEE considered it undesirable that the two companies had already decided to increase their tariffs on 1 January 2012. Moreover, the two companies could not clearly explain the rationale behind their tariff increases in the light of the following –

(a) The Government rent and rates refunded to HEC for year of assessment 2004-2005 alone amounted to $150 million. The total refund might even amount to $750 million because, as reported in the press, HEC was seeking a refund of the Government rent and rates it had overpaid for a total of five financial years and the refund could be used to offset HEC's Basic Tariff;

(b) The Administration had expressed reservation about CLP's projected increase in its operating expenditure, which the Administration considered way higher than inflation. Unless such query by the Administration was clarified, the public would find it difficult to accept CLP's proposed tariff increase worked out on the basis of its expenditure; and

(c) HEC had forecast a 6.8 cent (22.5%) increase in FCC, while CLP's forecast increase was 3.7 cent (roughly 26%). Members and the public had difficulty in accepting such drastic forecast increases when there might be deflation in 2012.

Ms LEE therefore asked whether SEN could request the two power companies to shelve, or defer their tariff increase for at least three months, to allow time for clarification of the above three issues.

13. In response, SEN made the following points –

(a) The Administration had already urged the two power companies to return in full the above Government rent and rates refund to customers as soon as practicable, so as to mitigate the pressure of tariff increase;

(b) The current SCAs had retained the provisions that the two power companies would not be required to seek ExCo's approval for Basic Tariff adjustments insofar as the proposed rates of increase did not exceed those approved by ExCo for the relevant year in the prevailing development plan by more than 5%. The threshold allowed by previous SCAs was 7%. Having said that, the provision did not preclude the annual vetting of the companies' proposed capital investments and operating cost, as well as assessment of the public's affordability during the annual tariff review exercises; and

(c) He had urged the two power companies to respond to ExCo's reservation about their proposed tariff increase. As reported in paragraph 6 above, one of the power companies had already responded by lowering the rate of increase through raising the FCA deficit. The other had yet to respond.

14. Responding to Mr IP Wai-ming on whether the two power companies were willing to return the above anticipated refund of Government rents and rates to customers, Mr Richard LANCASTER of CLP explained that CLP's legal case in this regard was still in judicial process. If, however, there was any refund from Government from this case, it would help cut the overall operating costs/expenses, thereby reducing the pressure for tariff adjustment. Mr Neil D MCGEE, Group Finance Director of HEC, said that HEC was not in a position to comment because HEC was still negotiating the actual amount of the refund with the Government. In reply to Mr IP on what measures the Government would take if the two companies did not return the refund to customers, SEN said that as stated earlier, the Administration would urge the two companies to do so and where necessary, legal actions would be taken.

Concerns about the two power companies maximizing their profits under their Scheme of Control Agreements

15. In response to Mr Fred LI, both power companies admitted that the proposed tariff adjustment would enable them to earn the maximum annual permitted rate of return of 9.99% under their current SCAs. Noting the above, members in general considered it undesirable that the two companies should, after making huge profits over the years, still seek to earn the permitted rate of return although they were entitled to do so. Highlighting the need to give regard to the public's ability to afford, Mr LEE Cheuk-yan and Ms Starry LEE urged the two companies to fulfil their corporate social responsibilities (CSR) by refraining from doing so every year, in particular this year, when the general public were already suffering from an inflationary environment. Mr IP Wai-ming, however, opined that efforts made to ask

the two companies to fulfil their CSR would be futile.

16. Mr K S TSO of HEC responded that HEC had not always earned the permitted rate of return. For example, it had not done so during the period from 2004 to 2006. Moreover, being part of a listed company, the shares of HEC's holding company were bought by many overseas funds because HEC's business was regulated by the SCA which had a stipulated rate of Permitted Return. The funds were always reviewing HEC's performance and accounts. As such, HEC had to follow the SCA in the tariff review.

17. Mr Richard LANCASTER of CLP made the following points –

(a) As a result of CLP's sustained efforts, its tariff had remained stable during the last decade and, even after the proposed adjustment CLP's Basic Tariff would still be lower than it was in 1997;

(b) The permitted rate of return under CLP's SCA did represent a balance between the need to provide the certainty required for raising capital and making long-term commitment, and the obligation to secure the provision of a reliable and clean supply of power; and

(c) CLP did take to heart the public's affordability, and had tried to ensure that the proposed tariff adjustment would have minimal impact on the low consumption customers. As such, it had designed its Basic Tariff structure in such a way that it was expected that 700 000 residential customers (with electricity consumption of 400 units or below per bill) would only pay an additional $4 or less per month, while 50% of business customers (with electricity consumption of 540 units or below per month) were expected to experience a monthly tariff increase of less than $50 a month.

18. Mr Ronny TONG considered the SCAs unfair and undesirable for leaving the general public with no say on tariff increases because of the permitted rate of return thereunder. While appreciating the reduction of the permitted rate of return from 13.5% to 9.99% when the SCAs were last renewed, Ms Cyd HO said that the reduction was insufficient considering the two power companies' attempt to maximize their profits at all times regardless of the economic environment. She opined that when their SCAs were next renewed, the rate should be further reduced. Noting that the Administration was still liaising with the two companies on reduction of their tariff increase rates, the Chairman indicated hope for the Administration to achieve some success in this regard.

19. SEN responded that the Administration had already made various proposals to the two power companies on how they could mitigate the pressure on tariff increase in 2012. The permitted return was not the guaranteed return and, as reported by HEC in paragraph 16 above, it had not always earned up to the permitted rate of return every year in the past. In recognition of the need to allow the two companies to exercise flexibility, he considered the imposition of any restriction on their permitted rates of return undesirable.

20. Pointing out that CLP's headquarters in Argyle Street was originally a power generation facility, Miss Tanya CHAN questioned why the profits to be made from its redevelopment into a property development would not be used to benefit customers by taking the profits into account when calculating CLP's permitted rate of return. Mr Richard LANCASTER of CLP responded that the redevelopment project was still under consideration, and discussions had to be held before any final decision could be made. The building was mostly used to support the activities of CLP Holdings Limited which were separate from CLP's Hong Kong electricity business.

Costs quoted as justification for tariff increase

21. Noting that investments in emissions control, natural gas, and supply infrastructure had been quoted to justify the proposed tariff increase, Mr Fred LI considered it necessary to separate the investment in emissions control from that in supply infrastructure, especially that in the Pipeline, so that members could work out the latter's impact on the tariff level. SEN responded that instead of causing an impact on the tariff level, the Pipeline project could obviate the need to construct a LNG terminal in Hong Kong costing about $10.4 billion, thereby helping to contain capital investment. It was believed that the cost saved in this way would far exceed the cost for constructing the Hong Kong section of the Pipeline.

22. On the understanding that the 5-cent increase in CLP's Basic Tariff could be attributable to its capital project expenditure, which amounted to $39.9 billion under its five-year development plan, Mr Fred LI enquired about the portion of the above increase that was related to the Pipeline. In response, SEN assured members that the cost for constructing the Pipeline was definitely not a major reason for the above 5-cent tariff increase. Its impact on tariff increase, if any, would only be a fraction of 1 cent.

23. In response to Mr Fred LI's request for further details of the power companies' capital project expenditure, Mr Richard LANCASTER of CLP advised that the significant increase in CLP's Basic Tariff had resulted from several developments happening at the same time, including completion of the $9-billion Emissions Control Project; the need to prepare for new gas supplies; the implementation of a number of new infrastructure projects to

support Government's development plans, such as those in East Kowloon and West Kowloon, the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link, etc.; and the fast depletion of CLP's TSF, the balance of which would be projected at only some $300 million in end 2012. The deficit of CLP's FCA would grow from $58 million in 2011 to the projected $840 million by the end of 2012 because of the much higher price of the gas purchased.

24. Mr Ronny TONG sought specific details of the two power companies' forecast fuel cost increase, and questioned why under similar fuel cost pressure, their rates of tariff increase should be different. Mr C T WAN of HEC responded that HEC used solely coal and gas as fuels. Where gas was concerned, there were two supply contracts the prices of which were linked to that of crude oil. As such, if HEC disclosed the price of the former, other companies would also know the price of gas which HEC was paying. HEC could therefore only provide the dates on which the two gas supply contracts were signed, namely, that the first one was signed in 2002, when crude oil price was low and gas price was in mid-single digit dollar per unit, for supply to start from 2006. The other was signed in 2009 for supply to start from 2010, and that the price exceeded US$15 per unit. As such, the price of gas had more than tripled since 2002. As to coal, which was procured through competitive bidding from suppliers in different parts of the world, the price in 2012 was estimated to increase by 5% to 6%.

25. Mr Richard LANCASTER of CLP added that CLP purchased coal from the same market as HEC and hence the price was roughly the same. As to gas, CLP currently had its gas supplied from near Hainan Island under a long-term contract negotiated in the early 1990s. The price was therefore very cheap being roughly the same as that of coal at present. The new supply of gas to be brought in had been sourced from the Mainland under the Memorandum of Understanding on Energy Co-operation signed between Hong Kong and the Mainland Governments at the end of 2008 covering three sources, namely, the 9 000-km Pipeline, an LNG terminal in the Mainland, and off-shore gas from the South China Sea. The prices for this new supply of gas, starting from 2012, were as follows –

(a) The new offshore gas from the South China Sea would be priced at two times that of the current supply of gas; and

(b) The first delivery of gas from the Pipeline would be priced at three times that of the current supply. Since supply of gas from this source was negotiated and purchased from the largest state-owned gas supplier in the Mainland, the price had been set on a fair basis across the Mainland and Hong Kong would have to pay slightly more than Shenzhen as Hong Kong was located further away than Shenzhen along the Pipeline.

Government's gate-keeping role

26. Highlighting the significant tariff increase proposed despite the above anticipated rent and rates refund, Mr LEE Wing-tat and Mr Ronny TONG questioned whether the Administration had performed its gate-keeping role properly. In response, SEN made the following points –

(a) Regarding the refund of Government rent and rates, the Government had already made it very clear to the companies that the refund should be used to benefit consumers as soon as practicable unless there was proof that the money concerned had come from their shareholders;

(b) Although the two power companies' development plans had been approved, the Government had still examined every expenditure item in the annual tariff proposals seriously, and would query the need and timing of their expenditures where necessary, particularly if they would entail cost increase in future. In scrutinizing the relevant annual capital investments, operating costs and fuel costs, independent consultants had also been engaged. As a result, while agreeing that some of the reasons put forward for cost increase were valid, such as fuel cost increase resulting from the use of cleaner fuels, the Administration had also identified areas that should be negotiated. Queries so raised had already been highlighted in the Administration's PowerPoint presentation; and

(c) The Government had also urged that even though for some reasons the two companies had to increase their tariffs, they should still take into consideration the public's affordability, and take all measures possible to minimize the increase, such as by making better use of both TSF and FCA balances. In fact, the Administration had seriously asked the two companies to reconsider their tariff increase proposals.

27. Pointing out that the above efforts had failed to bear fruits, Mr LEE Wing-tat and Mr LEUNG Yiu-chung sought details on what the Administration and ExCo would further do. SEN responded that since the permitted rate of return was not the guaranteed return but the maximum return, the Administration had been persuading the two companies to keep the balances of their TSF to the minimum, so as to effectively mitigate the need for tariff increase when times were bad. The Administration would continue such efforts.

28. To allow sufficient time for discussion, the Chairman repeatedly extended the meeting by 15 minutes up to 7:00 pm.

29. Mr Albert CHAN considered it undesirable that monitoring of the two power companies had been transferred from the then Economic Development and Labour Bureau to the Environment Bureau (ENB), which in his view might not be able to negotiate tariff increase with the two power companies effectively because it did not have the expertise required to assess whether the operating costs reported by the two companies were justified or not. CLP had been able to expand its generating capacity in the 1990s to increase their investment expenditure, thus increasing the amount of return. In fact, in the past eleven years CLP and HEC had been able to make profits of some $9 billion (once even reaching $11.3 billion), and $6 billion to $7 billion respectively every year on average. Taken together, the profits they had made during the past eleven years had reached some $171.7 billion. In other words, on average every Hong Kong citizen had contributed over $24,000 to them in profits. He considered the SCAs the cause of such substantial profits, and that the permitted rate of return, though reduced to the present 9.99%, was still undesirable because it had in practice become the maximum guaranteed return, and there was little the Government could do to restrain them from maximizing profits.

30. SEN responded that subsequent to the above-mentioned transfer, ENB had retained the same professional team and continued to hire expert(s) consultants in vetting the annual tariff reviews. Moreover, no matter which bureau was directly responsible, the Government would ensure the safeguard of public interests in the implementation of the SCAs with the two power companies. It was in the same spirit that the Administration had put forward its reservation about the tariff increase as shown in the PowerPoint presentation.

31. Ms Emily LAU said that Members belonging to the Democratic Party found ENB's performance of its gate-keeping role disappointing because it had failed to prevent the two power companies from implementing the 2012 tariff increase though expressing disagreement with them on certain aspects, such as why they could not control cost better, why they included certain capital expenditures prematurely, and why the above anticipated rents and rates refund could not be used to budget for a significantly larger FCA deficit for 2012 to mitigate tariff increase pressure. Noting that the Administration was still actively negotiating with them, and that ExCo had reservation about the tariff increase, she called upon members to vote for the motion she intended to move at the meeting to urge the Administration to make a clear undertaking to continue to actively persuade the two companies not to make such hefty tariff increase.

32. In response, SEN reiterated that he and ExCo had already conveyed similar messages to the two power companies in both verbal and written forms, and as a result one of them had already lowered the rate of increase. The Administration was still waiting for the other company to respond. It

was hoped that the two companies could in the meantime give due regard to the financial burden borne by the public and adjust their increase rates.

33. Ms Emily LAU urged the Chairman to call another meeting to revisit the issue before Christmas, so as to bring some good news to the public at this festive season.

34. The Chairman advised that two motions proposed by Ms Emily LAU and by Ms Starry LEE respectively, which he had just received, could not be dealt with because they were proposed after the meeting had been extended. He said that no motion might be proposed during such period of extension in accordance with House Rule 24A(f).

Tariffs paid by the business sector

35. Mrs Regina IP highlighted complaints from the manufacturing sector that tariff concessions for bulk industrial users in Hong Kong were not as favourable as those offered by Hong Kong's competitors in attracting foreign investments in innovative industries, such as Google's data centre.

36. Mr C T WAN of HEC responded that under a progressive charging system both domestic and non-domestic customers would be required to pay more if they consumed more in order to encourage energy saving. As to bulk supply consumers, tariffs were offered according to the Maximum Demand Tariff which consisted of two parts, i.e. demand charge and energy charge. The demand charge was based on the maximum demand in kVA, while the energy charge depended on the energy consumption in unit (kWh) of the month. Tariff charges were subject to a minimum of 100 kVA of the chargeable demand. The consideration behind was that if the demand was high and the consumption was low, the pressure on HEC's electricity system would be great. Notwithstanding, on average bulk users' tariffs were similar to those of other users.

37. Mr Richard LANCASTER of CLP added that CLP similarly had different tariffs for different sizes of businesses. CLP had also just reviewed its tariff structure and had proposed to adopt a new flat rate structure for energy charge. He further pointed out that CLP's tariffs for commercial and industrial customers were very competitive being the lowest in the region, and were even lower than those in Shenzhen. At Mrs Regina IP's request, the two power companies agreed to provide information on how their tariffs for bulk users such as commercial and industrial users compared with those in Japan, Singapore, Korea and Taiwan.

Two power companies.

38. Ms Miriam LAU stressed the need to give due regard to the hardship

faced by businesses under the current economic climate. SEN responded that in vetting the tariff increase applications, the Administration had mainly looked at five aspects, namely, the operating costs and the capital investment which would affect the Basic Tariff, the TSF and FCA balances, and any special items such as the above anticipated Government rent and rates refund this year.

39. Ms Miriam LAU asked CLP to explain how it had worked out that 50% of its business customers (with electricity consumption of 540 units or below per month) would experience a monthly tariff increase of less than $50 a month, and enquired about the anticipated tariff increase for the remaining 50% of CLP's business customers. She also asked how the new flat rate structure reported in paragraph 37 above would benefit low consumption business customers.

40. Mr Richard LANCASTER of CLP responded that CLP already charged different classes of customers different tariffs. The above new flat rate structure only meant that for business customers, CLP would withdraw the existing Basic Tariff reductions which applied for higher levels of consumption and move to a flat energy rate for each tariff. As a result, the impact of tariff increase would be greater for customers with higher consumption. He further reported that 70% of CLP's commercial customers would face a monthly tariff increase of no more than $131 a month and that a mechanism would be available for business customers with high consumption to reduce the impacts of the tariff adjustment.

41. The Chairman asked the two power companies if they would consider offering tariff concessions to encourage enterprises to take green measures. In response, Mr K S TSO of HEC said they would examine what could be done in this regard. Mr Richard LANCASTER of CLP pointed out that CLP supported green endeavours by their business customers, and was already offering free advice for energy saving and energy audits to all its business customers to help them optimize their use of power.

Members' request for more information for assessing the proposed tariff increase

42. Mr Ronny TONG opined that the Panel had not been provided with sufficient information on the proposed tariff increase, and urged the Administration to provide to the Panel the financial information on the basis of which the tariff increase had been proposed, so as to enable the Panel to ascertain whether the adjustment rates were justified. Mr Albert CHAN, Mr LEUNG Yiu-chung and Ms Cyd HO shared his views. SEN responded that while some of the information requested could be made open, others might need to be kept confidential due to their commercial sensitivity.

43. Mr Albert CHAN expressed disappointment with the above response and said that during previous discussions, the Administration had always been criticized for the lack of transparency in handling the tariff increase because of its refusal to provide more information to facilitate discussion using the excuse of commercial sensitivity of information. Pointing out that the tariff increase rates had been worked out on the basis of the financial information provided by the two power companies, Ms Miriam LAU emphasized the need for the Administration to provide more such details to the Panel. For example, the amount of the above anticipated refund of Government rent and rates and how they could be used to benefit customers, and details of Government's negotiation with the two companies, particularly how the rate of increase of one company had been reduced after ExCo's earlier meeting, etc.

44. SEN responded that no further details on the above anticipated refund of Government rent and rates could be provided because the sum was still being worked out and this was a matter entirely between the Rating and Valuation Department and the two power companies. However, since the proposed tariff increase rates could be lowered if the refund could be made in 2012, the Administration had already made it clear to the power companies that benefit of the refund should be returned to their customers in full as soon as possible. He also reported that as a result of Government's negotiation with the two power companies since October 2011, the current tariff increase rates had already been significantly reduced from the originally proposed rates. However, at this stage there was still room for further reduction. Certain differences were also being sorted out, in particular where deficit in the FCA was concerned.

45. Mr LEUNG Yiu-chung queried how the original tariff increase rates could, as reported above, be lowered as a result of Government's negotiation with the two power companies, having regard that by proposing the current increase rates, the companies were in fact seeking to earn the maximum permitted rate of return. He also considered it regretful that the Administration had not taken upon themselves to ensure the provision of sufficient information to the Panel to facilitate discussion.

46. In response, SEN advised that the Administration was obliged under the SCAs to keep confidential the information provided by the two power companies in support of their tariff increase applications. Such information might be commercially sensitive and could not be fully disclosed. The Administration had therefore highlighted queries regarding the calculation of costs to alert members of the need to seek further relevant details from the two companies.

47. Ms Cyd HO opined that given the two power companies' monopoly and hence the need for them to be accountable not only to their shareholders

but also their customers and the community, they had the obligation to disclose their financial information to facilitate monitoring, and could not refuse to do so under the pretext of commercial sensitivity. She therefore sought details on which company was willing to reduce the increase rate and which was not, the above highlighted room for improvement in cost control, the justification of the capital investments included in calculating the tariff increase, the party responsible for vetting such investment expenditures, and the costs the inclusion of which the Administration considered unnecessary.

48. In response, SEN advised that HEC was the company which had positively responded to the Administration's call for reduction of the tariff increase rate. The Administration had also clearly listed out in its PowerPoint presentation its differences with CLP, including whether better efforts to control cost would help reduce the increase rate, concern about premature inclusion of certain capital expenditures, whether changes to the deficits in the FCA could help suppress tariff increase, the need to return the above anticipated refund of Government rent and rates to customers, etc. Ms Cyd HO considered the provision of further details on the premature inclusion of capital expenditure necessary.

49. Mr K S TSO of HEC responded that whether the request could be acceded to would hinge on the nature of the information requested. He also said that all relevant information had already been provided to the Administration. Noting the response, the Chairman said that he would discuss with the Administration on the information that could be provided to the Panel, upon the receipt of which the Panel would decide on the way forward. Ms Cyd HO warned the two companies that how they responded to the request for information would impact on the renewal of their SCAs in future.

Other views and concerns

50. Ir Dr Raymond HO opined that increase in the charges of public utilities was always unwelcome, especially as the companies concerned would all attempt to earn the maximum profits permitted under the relevant agreements all the time. Pointing out that gas was expensive and that for gas from the Pipeline, the further down the Pipeline the higher the price would be, he asked whether the Administration could liaise with the Mainland for waiver of the above price difference. SEN responded that gas supply from the Pipeline was in itself a measure to bring in cleaner fuel at a relatively less expensive cost, because the supply from the Pipeline had obviated the need to construct a LNG terminal in Hong Kong at an estimated cost of $10.4 billion. As to Ir Dr HO's suggestion on gas price, it should be noted that the price would be decided by supply and demand whatever the source. Moreover, the two power companies purchased gas from different

sources and not only from the Pipeline. It was believed that they would continue to do so according to their commercial considerations.

51. Ir Dr Raymond HO maintained that considering the substantial usage of gas by the two power companies, the Administration should assist them to negotiate for a more favourable gas price to help contain tariff increase. SEN responded that the Administration would help liaise for additional sources of gas supply. However, since gas price was decided by demand and supply, the price level should more appropriately be negotiated by the two companies themselves.

52. In response to Mr LEUNG Yiu-chung on the tariff increase rates which the Administration considered reasonable, SEN explained that the Government did not have any optimal rate in mind. It would only seek to ensure that costs included for working out the tariff increase were reasonable and not premature and excessive, and that the two power companies had already done their best to control cost. The Administration had also urged the two companies to give regard to the public's affordability, and to explore different ways to mitigate the pressure on tariff increase. The Administration would continue such efforts in recognition that certain positive outcomes had already resulted under the framework of the SCAs. Noting the response, Ms Emily LAU urged SEN to spare no effort in seeking a reduction in the tariff increase rate.

53. The Deputy Chairman opined that there was little the Panel could do to contain tariff increase considering that the two power companies' SCAs would not expire until 2018. He therefore proposed that instead of continuing to exert pressure on them, the Panel should examine what the Administration could do to seek a smaller increase under the current circumstances and, should it fail to do so, what remedial actions it could take to mitigate the impact of the increase on the grassroots.

54. SEN responded that under the framework of the SCAs, the Administration was making efforts to ensure that the capital and operating costs of the two power companies were justified and necessary to maintain a stable and safe power supply for Hong Kong. While their costs had increased during recent years in response to calls to achieve a clean power supply, the public might consider such costs necessary and acceptable. Moreover, the Administration had time and again reminded the companies to give regard to the public's affordability. SEN emphasized that in considering the tariff review proposals by the two power companies, the Administration had always sought to ensure that the rate of tariff increase was well-justified and acceptable to the public. In the specific case of the 2012 tariff review, the Administration was still pursuing with the two power companies for them to exploit the room for further reducing the rates of increase, including bearing larger deficits in their FCAs and exercising better

cost control.

Conclusion

55. Summing up, the Chairman said that all members were concerned about the proposed tariff increase of the two power companies which they considered excessive. In recognition of the current economic downturn, it was hoped that the two companies could lower the increase rate, and that the Administration would continue to negotiate with them in this regard. He also hoped that the Administration could as soon as practicable provide the information which members had requested above where disclosable, and report any new progress in tariff adjustment to the Panel. He would closely liaise with SEN in this regard in the following days to ensure timely provision of the requested information for further discussion at another meeting as necessary.

(*Post-meeting note:* The requested information was issued to members vide LC Papers Nos. CB(1)672/11-12(01), CB(1)675/11-12(01), CB(1)760/11-12 and CB(1)733/11-12(02) on 20 December 2011, 23 December 2011, 4 January 2012 and 5 January 2012 respectively.)

V Any other business

56. There being no other business, the meeting ended at 6:52 pm.

Council Business Division 1
Legislative Council Secretariat
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