立法會
Legislative Council

LC Paper No. CB(1)1953/11-12
(These minutes have been seen by the Administration)

Ref : CB1/PL/EDEV/1

Panel on Economic Development

Minutes of special meeting
held on Friday, 23 December 2011, at 2:30 pm
in Conference Room 2 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 Dr Hon Philip WONG Yu-hong, GBS Hon Emily LAU Wai-hing, JP Hon Andrew LEUNG Kwan-yuen, GBS, JP Hon Ronny TONG Ka-wah, SC Dr Hon LEUNG Ka-lau Hon IP Wai-ming, MH Hon Mrs Regina IP LAU Suk-yee, GBS, JP Hon Albert CHAN Wai-yip
Members attending :	Hon LEE Cheuk-yan Hon LAU Kong-wah, JP Hon Tommy CHEUNG Yu-yan, SBS, JP Hon Cyd HO Sau-lan Hon Alan LEONG Kah-kit, SC Hon LEUNG Kwok-hung
Members absent :	Dr Hon David LI Kwok-po, GBM, GBS, JP Hon Miriam LAU Kin-yee, GBS, JP Hon Andrew CHENG Kar-foo Hon Vincent FANG Kang, SBS, JP

Hon WONG Ting-kwong, BBS, JP
Hon CHIM Pui-chung
Hon Starry LEE Wai-king, JP
Hon Paul CHAN Mo-po, MH, JP
Dr Hon Samson TAM Wai-ho, JP
Hon Tanya CHAN

Public officers attending : Agenda Item I

Mr Edward YAU
Secretary for the Environment

Miss Vivian LAU
Deputy Secretary for the Environment

Miss Linda CHOY
Political Assistant to Secretary for the Environment

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

Attendance by invitation : **Agenda item I**

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 K L NGAN
Associate Director (Regulatory Management)

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

Staff in attendance : Mrs Constance LI
Assistant Secretary General 1

Mr Timothy TSO
Assistant Legal Adviser 2

Mr Ken WOO
Council Secretary (1)6

Ms Michelle NIEN
Legislative Assistant (1)6

Action

I Annual tariff reviews with the two power companies

Meeting with the two power companies and the Administration

(LC Paper No. CB(1)675/11-12(01)	—	Administration's paper on annual tariff reviews with the two power companies
LC Paper No. CB(1)675/11-12(02)	—	CLP Power Hong Kong Limited's paper on CLP Power 2012 Tariff Review – Clarifications
LC Paper No. CB(1)733/11-12(01) *(tabled at the meeting and subsequently issued on 5 January 2012 under confidential cover)*	—	Paper from CLP Power Hong Kong Limited
LC Paper No. CB(1)733/11-12(02) *(tabled at the meeting and*	—	Paper from The Hongkong Electric Co., Ltd.

subsequently issued on 5 January 2012 under confidential cover)

LC Paper No. CB(1)554/11-12(03) —	Presentation materials provided by The Hongkong Electric Co., Ltd.
LC Paper No. CB(1)554/11-12(04) —	Presentation materials provided by CLP Power Hong Kong Limited
LC Paper No. CB(1)633/11-12(01) —	Presentation materials provided by the Environment Bureau
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) —	Letter from Hon Fred LI Wah-ming on "Annual tariff reviews with the two power companies" dated 8 December 2011
LC Paper No. CB(1)662/11-12(01) —	Administration's letter dated 16 December 2011 on information concerning the two power companies requested by Hon Fred LI Wah-ming (LC Paper No. CB(1)572/11-12(01))
LC Paper No. CB(1)662/11-12(02) —	The Hong Kong Electric Co., Ltd.'s letter dated 16 December 2011
LC Paper No. CB(1)672/11-12(01) —	Supplementary information paper provided by CLP Power Hong Kong Limited)

At the Chairman's invitation, the Secretary for the Environment (SEN) highlighted the following –

(a) the Administration's position as set out in LC Paper No. CB(1)675/11-12(01) regarding the two power companies' proposed tariff increase in 2012, and its efforts to scrutinize and reduce the tariff increase level and to facilitate the supply of information by the two companies to members; and

(b) the Administration's efforts to vet individual expenditure items, including capital investment, by the two companies to screen out items that were excessive, premature or unnecessary. This was conducted as an annual exercise under the Tariff Review, in accordance with the Scheme of Control Agreements (SCA) with the two power companies and with regard to their five-year development plans.

2. In response to the Chairman and Mr CHAN Kam-lam, the two power companies confirmed that the two confidential papers respectively provided by them (LC Papers Nos. CB(1)733/11-12(01) and (02)) and tabled at the meeting could be made available to non-Panel members attending the meeting. The Chairman reminded members that the papers were provided for members' personal reference only to facilitate discussion at this meeting and not for other purposes.

3. Mr Alan LEONG pointed out that the two confidential papers did not shed light on how the two power companies had worked out their proposed tariff increase. In particular, details on their five-year development plans were not available to enable members to understand whether increases in their capital expenditures were reasonable. He therefore enquired whether the two companies would be willing to provide the Legislative Council (LegCo) with further details on these aspects.

4. Mr Richard LANCASTER, Managing Director of CLP, responded that apart from those details which could not be disclosed because they were commercially sensitive, or were under disclosure restrictions in recognition that CLP was a publicly listed company, CLP had already provided all relevant disclosable information to members.

5. Mr C T WAN, Director of Engineering (Planning & Development) of The Hongkong Electric Co., Ltd. (HEC) shared the view of CLP, adding that HEC's confidential paper tabled at the meeting (LC Paper No. CB(1)733/11-12(02)) already contained details on HEC's operating expenditures during the past three years as well as its forecast expenditures for the following two years.

Presentation by CLP Power Hong Kong Limited
(LC Papers Nos. CB(1)675/11-12(02) and CB(1)733/11-12(01)

6. Mr Richard LANCASTER of CLP briefed members on the two papers provided by CLP to the Panel subsequent to the Panel meeting on 13 December 2011. In particular, he highlighted CLP's recent decision to revise its net tariff adjustment for 2012 from the originally proposed 9.2% to 7.4%, which had been made possible by cutting the Fuel Clause Charge (FCC) increase from 3.7 cents to 2 cents per unit of electricity although this move would increase the deficit of CLP's Fuel Clause Recovery Account (FCA).

Presentation by The Hongkong Electric Company Ltd.
(LC Paper No. CB(1)733/11-12(02))

7. Mr K S TSO, Group Managing Director of HEC drew members' attention to HEC's confidential paper tabled at the meeting.

Discussion

Differences between the Administration and CLP Power Hong Kong Limited regarding its tariff calculation

- Differences in capital investments

8. Mr Fred LI and Mr Ronny TONG asked about the extent of possible reduction for CLP's proposed tariff increase if CLP and the Administration could sort out their differences described in LC Paper No. CB(1)675/11-12(01), in particular the capital investments in preparatory and early stage of works for additional generation capacity projects, which were said to have been prematurely included in CLP's tariff calculation. In this regard, Mr TONG pointed out that according to CLP's confidential paper (LC Paper No. CB(1)733/11-12(01)), if the relevant investments were to be expensed as operating cost, the calculation would add an immediate revenue requirement and bring further upward pressure to the Basic Tariff adjustment of about 0.25 cent/unit for 2012.

9. SEN responded that although the above additional generation capacity projects were estimated to incur hundreds of millions of capital expenditure in 2012, the expenditure would not have a significant impact on the 2012 Basic Tariff specifically. Notwithstanding, the Administration did not agree to include these in the calculation of the 2012 tariff adjustment because the relevant works were meant to create additional generation capacity, which the Administration did not consider justified in view of the latest electricity consumption trend and forecast. The continuous investment in the project would also entail huge capital expenditure as a whole, eventually leading to larger increase in Basic Tariff in future.

10. Mr LEE Cheuk-yan sought further details on the premature capital investments, particularly whether they were solely for increasing generation capacity, and would be taken out from CLP's tariff calculation as urged by the Administration. Mr CHAN Kam-lam and Mr Albert CHAN said that CLP should give a clear response to the Administration's views on CLP's information given in LC Paper No. CB(1)675/11-12(01), in particular paragraph (2)(b) which stated that the costly capital projects concerned had yet to be fully vetted or included in CLP's current development plan. Mr Albert CHAN considered that this was a serious accusation implying that

CLP had deliberately included premature capital investments in the calculation of tariff adjustment to boost profits.

11. Mr Richard LANCASTER of CLP responded that all capital investments of CLP had been approved by the Administration. As to those on new generating capacity, they were necessary and important for identifying in a timely manner the most appropriate options to meet future electricity demand, so as to enable the relevant projects to be discussed and agreed upon in time to ensure a reliable supply of electricity in Hong Kong. The options being studied included the conversion of coal-fire power plants to gas usage. CLP had already conducted relevant feasibility studies, and had proposed to the Government that before finalizing the option, CLP should in 2012 conduct further studies, including environmental impact assessment and technical feasibility studies. CLP would continue its discussion with the Government in this regard and aimed to respond positively to Government's concerns about the capital projects concerned in the following week.

12. Mr LEUNG Kwok-hung considered CLP's response unconvincing, and expressed regret that CLP seemed to be trying to cheat Hong Kong people to maximize its profits. The Chairman urged CLP to provide a written response to the other points in the Administration's views on CLP's information after the meeting.

CLP

13. Pointing out that the alleged premature capital investments were related to CLP's five-year development plan, Mr Albert CHAN asked the Administration whether it had queried these investment items in vetting CLP's five-year development plan or queried whether these investment items had not been included in or deviated from the five year plan. The Chairman asked the Administration to provide the requested information in writing.

Admin

14. Mr Ronny TONG asked whether the Administration would take legal actions if it could not resolve its difference on the premature capital investments with CLP. SEN responded that the Administration had already clearly made known to CLP that unless it could prove the relevant power demand, the Administration would not agree to the inclusion of the additional generation capacity projects in CLP's current development plan. Meanwhile, the Administration had also made it very clear that considering the overall electricity demand, it did not see any need for CLP to increase its generation capacity. The Administration also objected to the fact that implementation of the projects concerned should start before approval of their inclusion in the development plan. The Administration had therefore already clearly requested CLP to take out the relevant items from its forecast capital expenditure in 2012.

- Differences in other aspects

15. Mr Albert CHAN considered it necessary for CLP to provide a full response to the Administration's views on CLP's information. Responding to Mr Alan LEONG's enquiry about the actions taken by the Administration to resolve its differences with CLP regarding its tariff calculation other than the premature capital investments, SEN made the following points –

(a) In the course of vetting CLP's tariff calculation, the Administration considered that there was room for reduction in its operating costs and had urged CLP to take action accordingly. However, the Administration was mindful that it should not micro-manage CLP's operation and dictate which operating cost items the company should trim; and

(b) The Administration had clearly requested CLP to, as soon as practicable, return to customers in full any repayments to be made by the Government upon the final resolution of the Court in CLP's favour in respect of its claim against Government's overcharging of Government rent and rates over the past decade (the anticipated rent and rates refund). CLP had positively responded to this request.

16. Referring to the papers tabled at the meeting, Mr Ronny TONG highlighted differences between the Government and CLP in the calculation of the Basic Tariff, level of the FCA deficit, and the anticipated rent and rates refund. Mr TONG concluded that in the long run, the only way to reduce tariff increase might be to improve the calculation of the Basic Tariff because he considered that while the FCA deficit was a liability of the customers and would only increase pressure of tariff adjustment in future, incomes from the anticipated rent and rates refund were one-off in nature. The Administration noted his views.

17. Ir Dr Raymond HO opined that the Administration's views as set out in LC Paper No. CB(1)675/11-12(01) proved that the Administration had performed its monitoring role. He asked whether the Administration would review the five-year development plans of the two power companies every year, and how it vetted the projects proposed to be included in the plans.

18. SEN responded that similar to the Government's public works programme, the regulatory arrangements under the power companies' SCAs did provide some flexibility for the power companies to proceed with necessary developments and service improvements within the scope of the development plans approved by the Government. As such, an allowance for cost adjustment was given. Such scope for cost adjustment had, however,

already been narrowed from 7% in the past to the present 5% and was not an entitlement. The Administration would meticulously examine the capital investment proposals submitted by the power companies when conducting the annual review of their plans, and would endeavour to avoid investments that were excessive, premature, unnecessary or unreasonable though where justified, the Administration would also allow upward adjustment in the relevant expenditures. As a result, over the past three to four years the annual expenditures of the two companies had been lower than those allowed in the years concerned.

Concerns about the costs and expenditures of the two power companies

19. Mr Fred LI queried why CLP's capital project expenditure, which amounted to $39.9 billion under its five-year development plan, had not included the cost for constructing the West-East Natural Gas Pipeline (the Pipeline) to supply natural gas to Hong Kong. Referring to the $1.7-billion capital expenditure approved for enhancing gas receiving facilities in CLP's Black Point Power Station, and the $1.4 billion which the Administration had yet to approve for constructing the Hong Kong Branch Line (HKBL) of the Pipeline, Mr LI expressed doubt about whether the Administration could really play a gate-keeping role and raised the following questions –

(a) why the above HKBL project could proceed before approval of the relevant funding; and

(b) as CLP's capital project expenditure was already as great as $39.9 billion, why the Administration should still allow CLP to commit the $1.4-billion and $1.7-billion capital investment projects without first notifying LegCo Members.

20. In response, SEN made the following points –

(a) The $39.9-billion capital project expenditure of CLP and the projects covered had been reported to LegCo in 2008 in the context of CLP's five-year development plan and the Administration had spared no effort in trying to meet Members' request for more information in this regard;

(b) The Administration had been performing its monitoring role seriously, and would query the need and timing of the two power companies' expenditures as necessary. However, while the Administration could highlight areas for cost control where appropriate, the implementation of such proposals would rest with the two companies;

(c) Construction of HKBL had in fact obviated the need to construct a liquefied natural gas (LNG) terminal in Hong Kong costing about $10.4 billion. Moreover, HKBL was required to prepare for the depletion of gas from Yacheng, and to enable CLP to make greater use of cleaner fuel; and

(d) The $1.7-billion and $1.4-billion capital investments were costs incurred for constructing the entire gas supply infrastructure by two phases. While the first phase involving $1.7 billion had already been approved by the Executive Council (ExCo), the second phase involving $1.4 billion was still being scrutinized because the Administration would need to ensure every cost item thereunder was justified. However, when compared to the above $10.4 billion cost saving, the costs of the two construction phases of the entire gas supply infrastructure taken together were significantly smaller, and their impact on CLP's tariff adjustment rate was less than 1 cent in 2012.

21. Mr LEE Cheuk-yan asked CLP how it had worked out the 11.2% increase in operating cost in 2012, which he reckoned to be higher than the inflation rate. He queried whether this was the result of paying "fat cat bonus" to CLP's senior management. Mr CHAN Kam-lam referred to paragraphs 2.1 and 2.2 of CLP's confidential paper tabled at the meeting (LC Paper No. CB(1)733/11-12(01)), and enquired why some $220 million of the $395-million increase in CLP's operating costs for 2011-2012 had not been accounted for.

22. Mr Richard LANCASTER of CLP responded that CLP's operating expenditure comprised a number of elements. Aside from fuel, depreciation and cost for purchase of nuclear electricity, CLP's operating costs were projected to be $3.9 billion in 2012, representing only some 15% of CLP's total expenditure. Such costs included the use of a pumped storage scheme in the Guangdong Province to help balance the supply and demand of electricity, and some variable costs which could fluctuate significantly from year to year as shown below –

(a) The costs were high in 2010 because CLP had to dispose of assets for a number of reasons including the return of part of its ash lagoon to the Government, and the diversion of electricity cables particularly that in the Kai Tak area;

(b) The costs in 2011 had formed an exceptionally low base year as a result of exceptional items, such as larger proceeds from insurers in respect of claims; and

(c) The costs in 2012 were, however, expected to go up again because of higher fixed asset disposal costs. CLP would have to replace some of the equipment at Black Point Power Station in preparation for the introduction of new gas supply, so that the original cost of the old equipment had to be written down.

In fact, if the cost items that changed significantly from year to year were excluded, the rate of increase in CLP's operating cost for 2012 would be close to the general rate of inflation.

23. Mr LAU Kong-wah noted from the two confidential papers that despite CLP's claim that the increase in its operating costs had been attributed to emissions reduction measures, according to the Administration the cost of the measures only accounted for 1% of CLP's some 11% overall increase in operating costs, and the remaining 10% increase was in fact related to increase in costs covering labour, materials, Government rent and rates. He considered it undesirable that CLP had sought to maximize its profits by boosting its operating expenditure as shown above, and queried why there would be substantial increase in Government rent and rates. The Administration and CLP noted his concerns.

Mechanism and rate of tariff adjustment

24. Mr LEE Cheuk-yan pointed out that the two power companies were in fact still seeking to earn the maximum permitted rate of return of 9.99% on the average net fixed assets for the year under their current SCAs (the permitted rate of return) despite CLP's reduction of its net tariff increase rate for 2012 from the originally proposed 9.2% to 7.4% in recognition of the fact that the reduction had actually been achieved by cutting CLP's FCC increase from 3.7 cents to 2 cents per unit of electricity. He considered it regrettable that the power companies had totally disregarded their corporate social responsibilities (CSR), and that the public had to suffer because of the Administration's failure to perform its gate-keeping role. Noting that even if those premature capital investments were deleted, CLP's tariff increase rate would still not be affected but only more funds would be transferred to its tariff stabilization fund (TSF), he questioned whether there were loopholes in the SCAs, so that the two companies' tariff adjustment did not require approval by the Administration.

25. Mr CHAN Kam-lam and Mr IP Wai-ming shared Mr LEE Cheuk-yan's view on CLP's rate of tariff increase, and said that CLP had in fact been manipulating figures. Moreover, by increasing the deficit balance in its FCA to relieve tariff increase, the pressure of tariff increase might in future increase. Mr Alan LEONG stated that same as the general public of

Hong Kong, Members belong to the Civic Party were concerned about the two power companies' insistence on earning their permitted rates of return. He asked what the Administration could do if no consensus could be achieved with the two companies on their tariff increase, and whether the Administration was obliged to approve the increase as long as the profits earned would not exceed their permitted rates of return.

26. Mr Tommy CHEUNG added that both the catering industry and the general public considered it unacceptable that the two power companies were seeking to earn the maximum permitted rate of return of 9.99%. He cautioned that when the two power companies' SCAs were renewed in 2018, Hong Kong people and the catering industry would not forget what the two companies had done today, and that both he and the catering industry would support the taking of tighter control measures against them.

27. In response to the views of members, Mr Richard LANCASTER of CLP explained that the mechanism for reviewing and calculating tariff was defined in the SCAs, under which the two power companies submitted detailed information to the Government for verification. Mr C T WAN of HEC added that it could be seen from HEC's confidential paper (LC Paper No. CB(1)733/11-12(02)) that due to reduction of HEC's operating expenditures in 2009 and 2010, HEC had taken the initiative to reduce the Basic Tariff by 1.4 cent in the 2011 Tariff Review. However, as a result of inflation in both Hong Kong and the world, and cost incurred from taking various measures since 2010 to reduce emissions, HEC's operating expenditures had increased in 2011. Notwithstanding, the operating expenditures in 2012 would still be lower than that in 2008 and the rate of increase over that of 2011 was lower than the inflation rate, so that the Basic Tariff would only be increased by 1 cent per unit of electricity in 2012, and HEC's tariff in 2012 would still be lower than that in 2009.

28. Mr Albert CHAN considered it undesirable that the Administration seemed to be powerless in preventing CLP from increasing its tariffs significantly, and not even in exerting pressure to prevent any manipulation of financial data for pushing up the increase at a later stage. He urged the Administration to overhaul the tariff adjustment mechanism, and improve the management of emissions reduction costs and profits as follows –

(a) To alleviate the pressure on tariff increase caused by emissions reduction costs, the Administration should consider subsidizing emissions reduction measures; and

(b) Since reduction of emissions should be CLP's CSR, the costs incurred should not be included in calculating the 9.99% permitted rate of return, and the rate of return on such costs should be 2% or 3% only.

29. Ir Dr Raymond HO expressed appreciation that HEC had adjusted its tariff increase rate expeditiously in response to public concerns. He urged CLP to follow suit instead of only slightly reducing its increase rate by cutting the FCC increase, without adjusting the Basic Tariff announced on 13 December 2011. As the Administration had pointed out that there was scope for negotiation with CLP for a smaller increase in the Basic Tariff, he opined that the Administration should be allowed time to negotiate with CLP. He then sought CLP's stance in this regard.

30. Mr Richard LANCASTER of CLP responded that CLP had seriously examined and responded to the issues raised by the Government on its tariff adjustment, and had listened to public views in this regard. As a result, CLP had already responded to two issues earlier by increasing the deficit balance of its FCA, and committing to make the anticipated rent and rates refund in full as soon as practicable to customers. CLP would continue discussion with the Administration on the remaining issues to be solved, and would respond to them positively within this week. Ir Dr Raymond HO welcomed the response. In response to Mr LAU Kong-wah's enquiry on whether there would still be scope for reducing CLP's tariff increase, Mr LANCASTER said that CLP hoped to be able to provide a positive response in time.

31. Pointing out that TSF was established primarily for mitigating the impact of tariff surge on the general public, Mr LAU Kong-wah questioned why CLP had not decreased its TSF balance further to contain tariff increase as HEC, which had kept its TSF at the level of some $300 million for years. He further expressed concern about CLP's attempt to boost its profits by insisting on including certain premature capital investments in the calculation of tariff adjustment despite the Administration's repeated calls to take them out. In his view, the above moves had turned CLP against the general public. He called upon CLP to reconsider these issues, and enquired whether CLP would defer its tariff increase until these issues had been satisfactorily resolved with the Administration.

32. Mr Richard LANCASTER of CLP responded that since CLP was working towards responding in the beginning of the following week to the issues yet to be resolved, if there would not be any delay in this regard, hopefully CLP would be able to settle the issues in time before its tariff adjustment took effect on 1 January 2012.

33. Mr Andrew LEUNG said that the four major chambers of commerce of Hong Kong had discussed the tariff increase issue with CLP and, after having also listened to the views of the public and other sectors, CLP had reduced its tariff increase by reducing the FCC increase. However, since the

reduction of FCC increase would in time be made up, to really contain tariff increase, there remained a need to sort out how the Basic Tariff could be reduced, and to take out those premature capital investments which the Administration had questioned.

34. Ms Emily LAU and Mr IP Wai-ming shared Mr Andrew LEUNG's views, and opined that while the most imminent issue was to urge the two power companies to reduce their 2012 tariff increase, the Panel should follow up the tariff adjustment mechanism in greater detail to prevent the FCA deficit from being passed onto customers. Ms LAU therefore sought details on the tariff adjustment mechanism, and enquired about any remaining gate-keeping measures to ensure the tariff increase that took effect on 1 January 2012 would be reasonable.

35. SEN responded that the Administration had, as reported at the meeting on 13 December 2011 and this meeting, identified four issues to follow up with CLP to ensure its tariff increase was reasonable. The four issues as well as ExCo's views on the tariff adjustment had already been clearly conveyed to CLP, and CLP had already responded to two of the issues. The Administration would continue to actively follow up with CLP on the remaining two issues.

36. Ms Emily LAU opined that the 2012 rate of tariff increase should be reduced to lower than the inflation rate to address the commercial sector's concern that some small and medium enterprises (SMEs) might close down because of the tariff increase, which even big enterprises, such as the Hong Kong Disneyland, found too significant and would pass it onto the general public.

37. Mr Richard LANCASTER of CLP responded that CLP had been meeting different industry groups and political parties, the Government and members of the public to listen to their views on its tariff adjustment since the Panel meeting on 13 December 2011. While CLP had taken note of their views, CLP had also tried to explain to them the cost pressures on it, namely, the need to complete gas infrastructures and plant modifications to bring new supplies of gas to Hong Kong, the need to incur additional cost to reduce emissions, etc. CLP had also tried to, through adjusting the design of its tariff structure, alleviate the impact of tariff adjustment on SMEs and users that consumed less amount of energy. With the recent reduction of its tariff increase rate, 35% of CLP's domestic customers would see no tariff increase. The rate of increase for SMEs would also be well below the inflation rate. CLP would continue to examine what further efforts could be made in this regard, and was already working with the Government on an acceptable proposal.

Tariffs for different consumer groups

38. Mr Andrew LEUNG considered the proposal to adjust the electricity tariffs for customers with different electricity consumption levels undesirable because industrial and commercial users might cut staff to offset the resulting increase in electricity tariffs. The increase in their operating costs might also be passed on to the general public. He further pointed out that there should be public consultation on the proposal, and asked whether the Administration could urge the two power companies to do so.

39. SEN responded that he had already explained Government's stance regarding the above proposal at the Council meeting on 21 December 2011. The Administration considered it reasonable and acceptable that, for domestic customers, the higher the consumption of customers in the same category, the higher the unit charge rate should be, as this approach could help promote energy conservation. As regards non-domestic customers, in recognition that they involved enterprises, operators and public organizations of different business nature, and that the scale of supporting operation and hence the cost of supplying electricity to them were not the same, there was a need to carefully consider whether the approach of "higher charge for higher consumption" should be adopted in the same manner as for the domestic sector. He noted that some industrial customers had, in fact, been relying heavily on surplus electricity during off-peak hours. He understood that the two power companies were already discussing the proposal with different categories of customers and would encourage the two companies to work out their tariff structures in consultation with different customer groups.

40. Mr Tommy CHEUNG pointed out that the catering industry considered it unacceptable that in addition to the high tariff increase rate, the two power companies had also collaborated to abolish the tariff concessions for bulk users under the disguise of energy conservation. Mr K S TSO of HEC responded that HEC had been adopting a progressive block tariff rate mechanism since 1994, and did not have any regressive rates mechanism.

41. Mr Richard LANCASTER of CLP added that the proposal to adopt a new flat rate structure for energy charge only meant that for business customers, CLP would withdraw the existing very small Basic Tariff discounts which applied to higher levels of consumption, and move to a flat energy rate for each tariff band. Notwithstanding, CLP was offering free energy saving advice and energy audits to all its business customers to help them minimize energy consumption. CLP had also been installing smart meters to enable them to improve energy management, and promoting more energy efficient electrical products such as electric induction cooking. He explained that CLP had not colluded with HEC in introducing the above changes in tariff structure but the changes had been introduced in keeping

with international practices that encouraged more efficient use of energy, after having carefully studied tariff structures around the world.

Rent and rates refund

42. Mr IP Wai-ming asked whether the tariff increase could be mitigated by using the anticipated rent and rates refund to cut the overall operating expenses, or by directly returning the refund to customers. Ms Emily LAU also enquired about HEC's stance regarding use of the anticipated rent and rates refund. Mr Neil D MCGEE, Group Finance Director of HEC, advised that HEC was still discussing with the Administration the amount of the anticipated rent and rates refund and how it would be handled. Mr IP considered the response undesirable, pointing out that the discussion on the matter should only focus on the amount. Mr K S TSO of HEC reiterated that HEC was still discussing with the Government on how to handle the refund.

Conclusion

43. In summing up the discussion, the Chairman said that all members considered the proposed tariff increase of the two power companies excessive. As the tariff increase would affect the general public and the industrial and commercial sectors, in particular SMEs, members urged that the two companies should further reduce their rates of increase, such as by increasing the deficits of their FCAs, taking out capital expenditure items which had been prematurely included in tariff calculation, and adopting other measures to reduce the operating expenditure. Panel members requested the two companies to provide a clear response to members' calls relating to the use of the anticipated rent and rates refund. In particular, members would like the Administration to play its gate-keeping role more proactively in the tariff adjustment process, and CLP to positively respond to members' calls within the following week after its negotiation with the Government.

> *(Post-meeting note:* The requested information provided by the Administration and the two power companies were issued to members vide LC Papers Nos. CB(1)672/11-12(01), CB(1)675/11-12(01), CB(1)738/11-12, CB(1)760/11-12, CB(1)733/11-12(02), CB(1)791/11-12, CB(1)901/11-12 and CB(1)979/11-12(01) respectively on 20 December, 23 December and 30 December 2011, 4 January, 5 January, 6 January, 18 January, and 1 February 2012.)

Members' motions

(LC Paper No. CB(1)675/11-12(03)	—	Motion proposed by Hon Emily LAU Wai-hing
LC Paper No. CB(1)675/11-12(04)	—	Motion proposed by Hon Starry LEE Wai-king
LC Paper No. CB(1)675/11-12(05)	—	Motion proposed by Hon Fred LI Wah-ming and Hon Emily LAU Wai-hing)

44. After discussion, the Chairman drew members' attention to the above three proposed motions issued to members earlier, and advised that the motion proposed by Ms Starry LEE (LC Paper No. CB(1)675/11-12(04)) had been withdrawn.

45. Ms Emily LAU then moved the following motion, which was seconded by Mr Ronny TONG and issued to members earlier vide LC Paper No. CB(1)675/11-12(03) –

"立法會經濟發展事務委員會反對中電及港燈的加價建議。"

(Translation)

"That the Legislative Council Panel on Economic Development opposes the tariff increase proposals of CLP Power Hong Kong Limited and The Hongkong Electric Co., Ltd."

46. Mr Fred LI and Ms Emily LAU jointly moved the following motion issued to members earlier vide LC Paper No. CB(1)675/11-12(05) –

"鑒於兩間電力公司調整 2012 年電費背後的數據及資料未有全面公佈，而 5 年發展計劃的詳情亦未有公開，本委員會要求立法會大會授權本委員會引用《立法會(權力及特權)條例》要求政府提供以下資料:

(a) 兩電調整 2012 年電費的詳細資料;

(b) 兩間電力公司 5 年發展計劃的詳細資料;

(c) 政府與兩間電力公司商討 2012 年電費會議的會議記錄。"

(Translation)

"That, since the data and information behind the 2012 tariff adjustments by the two power companies have not been fully disclosed, and the details of their five-year Development Plans have also not been publicized, the Panel on Economic Development request that it be authorized to exercise the powers conferred by the Legislative Council (Powers and Privileges) Ordinance to order the Government to produce the following information:

(a) detailed information on the 2012 tariff adjustments by the two power companies;

(b) detailed information on the five-year Development Plans of the two power companies; and

(c) minutes of the meetings held between the Government and the two power companies to discuss the 2012 tariff adjustments."

47. Mr CHAN Kam-lam moved the following motion tabled at the meeting, which was seconded by Mr Andrew LEUNG –

"本會強烈要求兩電押後於2012年1月1日加費的安排兩個月，並要求政府及兩電於2012年1月1日前向本會提交兩電未來五年資本投資及營運開支財務資料，以釐清社會對加費的疑慮，另外本會要求中電:

(a) 回應政府、議會及社會要求，將 2012 年的營運開支增幅調低至通脹水平，並把備受質疑的資本項目開支剔除於 2012 年的加費建議內，使 2012 年電費加幅進一步調低;

(b) 全數利用電費穩定基金的所有結餘(即把電費穩定基金的結餘即時降至零)，減低來年的電費增幅;

(c) 承諾於 2012 年內收到差餉及地租退款後，即時將電費調低，回饋消費者。

(Translation)

"That this Panel strongly demands the two power companies to postpone the tariff increase arrangements on 1 January 2012 for two months, and demands the Government and the two power companies to submit to this Panel before 1 January 2012 the financial information relating to the capital investment of the two power companies in the next five years as well as their operating expenditures, so as to alleviate the concern of society, and in addition, this Panel demands the CLP Power Hong Kong Limited:

(a) to respond to the demand of the Government, the Legislative Council and society by adjusting downward the increase in its operating expenditure to match the rate of inflation, and removing items of capital investment in dispute from the tariff increase proposal of 2012, so as to further reduce the tariff increase of 2012;

(b) to fully utilize the balance of the Tariff Stabilization Fund (i.e. to reduce the balance of the Tariff Stabilization Fund to zero immediately), so as to reduce the increase of tariff of the coming year; and

(c) to undertake to reduce the tariff as soon as it receives the refund of the rates and government rents in 2012 so as to benefit the consumers."

48. Speaking on the motion moved jointly by Mr Fred LI and Ms Emily LAU, Mr Fred LI referred to the Administration's response in paragraph 20(a) above that details on the two power companies' five-year development plans had been provided to the Panel in 2008 when the plans were approved. Mr LI pointed out that the figures therein were total sums and not annual figures or breakdowns, not to mention such important information as the upper limit in Basic Tariff allowed for under the development plans. Moreover, the Administration had yet to provide the relevant financial details even after CLP had indicated willingness to provide details of its development plan to LegCo. He therefore considered the request for information in the above motion moved by Mr CHAN Kam-lam insufficient, and expressed concern that if Mr CHAN's motion was passed, the two companies might provide information selectively to reveal only part of the picture. The exercise of the powers under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) to order the production of information in connection with the tariff increases by the two companies as requested in his motion was necessary.

49. Speaking on the motion he moved, Mr CHAN Kam-lam explained that there was a need to postpone the tariff increase arrangements considering the time required to secure and examine the relevant financial information and the intervening Chinese New Year holiday. There was also a need to request CLP to provide information necessary to address the concerns which members had raised regarding CLP's tariff increase. He requested HEC to

act according to paragraph (c) of his motion.

50. The Chairman put the motion moved by Ms Emily LAU to vote first. Five members voted for the motion and none voted against it. The Chairman declared that the motion was carried.

51. The Chairman then put the motion jointly moved by Ms Emily LAU and Mr Fred LI to vote. Two members voted for the motion, one member abstained from voting and four members voted against the motion. The Chairman declared that the motion was negatived. Mr CHAN Kam-lam explained that Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong had not voted for the motion because it sought to authorize the Panel to exercise the powers under Cap. 382, which in his view could serve little purpose as the tariff adjustment would take effect on 1 January 2012, and no Council meeting had been scheduled before then to deal with the motion to seek the authorizations from the Council.

52. Mr Fred LI expressed regret at Mr CHAN Kam-lam's explanation, and emphasized that his proposed motion did not seek to deter the two power companies from adjusting their tariffs on 1 January 2012 but to prevent drastic tariff increase in future by demanding the two companies to provide more information in respect of their five-year development plans and annual tariff review, thus enhancing transparency and facilitating improvement of the tariff adjustment mechanism. Ms Emily LAU shared Mr LI's views, pointing out that it was undesirable that under the current mechanism, the Administration could not prevent the two companies from adjusting their tariffs.

53. In response to Ms Emily LAU's enquiry on how his motion could secure the provision of further information without invoking the powers under Cap. 382, Mr CHAN Kam-lam highlighted the procedures and the time required for invoking Cap. 382. He emphasized that invoking the powers under Cap. 382 could not achieve meaningful purpose as the present proposed rates would take effect on 1 January 2012. His proposed motion was more practicable in bringing changes to the tariff adjustment rate before 1 January 2012. He hoped that the two power companies would understand that the public found their significant tariff increase unacceptable, and would provide the information requested in his motion before 1 January 2012 to enhance transparency of the tariff calculation process.

54. The Chairman put the motion moved by Mr CHAN Kam-lam to vote. Seven members voted for the motion and none voted against it. The Chairman declared that the motion was carried.

55. Ms Emily LAU urged the Administration to provide further

information as requested in Mr CHAN Kam-lam's motion within the following week, and urged that a meeting be scheduled to discuss the information when received. The Chairman advised that members would be notified of the date of the meeting once the information was available.

II Any other business

56. There being no other business, the meeting ended at 4:30 pm.

Council Business Division 1
Legislative Council Secretariat
23 May 2012