***立法會***
***Legislative Council***

LC Paper No. CB(4)487/14-15
(These minutes have been
seen by the Administration)

Ref: CB4/PL/EDEV

**Panel on Economic Development**

**Minutes of meeting**
**held on Tuesday, 16 December 2014, at 4:30 pm**
**in Conference Room 1 of the Legislative Council Complex**

**Members present** : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon CHUNG Kwok-pan (Deputy Chairman)
Hon CHAN Kam-lam, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Dr Hon LAM Tai-fai, SBS, JP
Hon CHAN Kin-por, BBS, JP
Dr Hon LEUNG Ka-lau
Hon Paul TSE Wai-chun, JP
Hon Albert CHAN Wai-yip
Hon James TIEN Pei-chun, GBS, JP
Hon Steven HO Chun-yin
Hon Frankie YICK Chi-ming
Hon YIU Si-wing
Hon Charles Peter MOK, JP
Hon Kenneth LEUNG
Hon Dennis KWOK
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon SIN Chung-kai, SBS, JP
Dr Hon Elizabeth QUAT, JP
Hon TANG Ka-piu, JP
Dr Hon CHIANG Lai-wan, JP

| | | |
|---|---|---|
| **Members attending** | **:** | Hon LEE Cheuk-yan<br>Hon WONG Kwok-hing, BBS, MH<br>Ir Dr Hon LO Wai-kwok, BBS, MH, JP |
| **Members absent** | **:** | Hon WONG Ting-kwong, SBS, JP<br>Hon Ronny TONG Ka-wah, SC<br>Hon CHAN Han-pan, JP |
| **Public Officers attending** | **:** | Agenda Item III |

Transport and Housing Bureau

Ms Jenny CHAN
Principal Assistant Secretary for Transport and Housing (Transport)

Miss Joyce CHAN
Assistant Secretary for Transport and Housing (Transport)

Marine Department

Mr SO Ping-chi
Assistant Director / Multi-lateral Policy

Mr LAI Ying-keung
Chief / Maritime Policy

Mr FONG Chung-yee
Senior Surveyor / Maritime Policy

Agenda Item IV

Mr WONG Kam-sing, JP
Secretary for the Environment

Mr Vincent LIU Ming-kwong, JP
Deputy Secretary for the Environment

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

**Attendance by invitation** : Agenda Item IV

The Hongkong Electric Company Ltd.

Mr C T WAN
Managing Director

Mr L S CHAN
Executive Director

Mr K M WONG
Chief Financial Officer

Mr T C YEE
General Manager (Corporate Development)

Ms Mimi YEUNG
General Manager (Public Affairs)

CLP Power Hong Kong Ltd.

Mr Paul POON
Managing Director

Mr Joseph LAW
Planning and Development Director

Ms Catherine CHOI
Public Affairs Director

Mr Stephen CHAN
Head of Strategic Planning and Regulatory Affairs

Mr Alan NG
Strategic Planner

**Clerk in attendance:** Ms Debbie YAU
Chief Council Secretary (4)5

**Staff in attendance** : Ms Shirley TAM
Senior Council Secretary (4)5

Miss Mandy NG
Council Secretary (4)5

Miss Shanice LOK
Legislative Assistant (4)5

---

Action

## I. Information paper(s) issued since the last meeting

(LC Paper No. CB(4)217/14-15(01) - Administration's paper on tables and graphs showing the import and retail prices of major oil products from November 2012 to October 2014)

Members noted the above paper issued since the last regular meeting.

## II. Items for discussion at the next meeting

(LC Paper No. CB(4)242/14-15(01) - List of outstanding items for discussion

LC Paper No. CB(4)242/14-15(02) - List of follow-up actions)

2. Members agreed to receive briefings by the Bureau Directors concerned on relevant policy initiatives in the Chief Executive's 2015 Policy Address at the next regular meeting of the Panel.

3. Members noted that the next regular meeting was originally scheduled for Monday, 26 January 2015. As one of the Bureau Directors would be on an overseas duty visit on 26 January 2015, members agreed to reschedule the regular meeting to Monday, 2 February 2015 at 4:30 pm.

## III. Incorporating in local legislation the latest standards of the International Maritime Organization

(LC Paper No. CB(4)242/14-15(03) - Administration's paper on incorporating in local legislation the latest standards of the International Maritime Organization

LC Paper No. CB(4)242/14-15(04) - Paper on legislative proposals to implement International Maritime Convention prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

4. At the invitation of the Chairman, the Principal Assistant Secretary for Transport and Housing (Transport) ("PAS(T)") briefed members on the Administration's proposal to amend three regulations and make a new regulation under the Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) ("the Ordinance"). The three Amendment Regulations sought to incorporate the latest requirements of Annex I, Annex IV and Annex V to the International Convention for the Prevention of Pollution from Ships ("MARPOL"). The new regulation aimed to implement the "International Convention on the Control of Harmful Anti-fouling Systems on Ships" ("AFS Convention"). The details of the proposal were set out in the Administration's paper (LC Paper No. CB(4)242/14-15(03)).

5. PAS(T) said that the Administration had consulted the stakeholders in the shipping industry on the legislative proposals and they had no objection to them. She said that the Administration planned to introduce the relevant legislative proposals to the Legislative Council in early 2015.

Discussion

*Implications of the legislative proposals*

6. Mr Steven HO expressed support to the legislative proposals. Noting that all ocean-going vessels ("OGVs") had to comply with the requirements of the aforesaid international conventions, he sought information on the estimated number of locally licensed ships of 400 gross tonnage ("GT") or above that would be affected by the legislative proposals.

7. PAS(T) replied that there were more than 2 200 ships registered in Hong Kong in which a majority were of 400 GT or above which had to comply with some of the requirements in the legislative proposals. For example, in respect of the requirement of MARPOL Annex V which was implemented in Hong Kong through the Merchant Shipping (Prevention of Pollution by Garbage) Regulation (Cap. 413J), every ship of 400 GT and above, including 838 locally licensed vessels, should keep a garbage record book except where the ships met

the condition for waiver under MARPOL Annex V.

8. Noting that the Merchant Shipping (Prevention of Pollution by Garbage) Regulation (Cap. 413J) applied to all ships within Hong Kong waters and all Hong Kong ships wherever they were, Mr Steven HO suggested that the Administration should carry out early and wide publicity on the Amendment Regulation. In particular, he considered that the fishing trade should be well informed about the requirement of displaying placards to notify the crew and passengers of the applicable disposal requirements imposed on ships of 12 metres or more in length overall. The Administration took note of his suggestion.

9. Mr Steven HO also noted that under the requirement of MARPOL Annex I which was implemented in Hong Kong through the Merchant Shipping (Prevention of Oil Pollution) Regulations (Cap. 413A), all oil tankers of 600 tonnes deadweight and above (regardless of the date of delivery) for the carriage of heavy grade oil should be constructed with double hull, in order to provide enhanced protection against leakage in the case of accident. He enquired that if this requirement applied to existing ships without double hull, what measures should be taken for these ships to meet this standard.

10. Assistant Director / Multi-lateral Policy of the Marine Department ("AD/MP") replied that there were 43 locally licensed Hong Kong ships of 600 tonnes deadweight and above for the carriage of heavy grade oil. Before the revisions made to MARPOL Annex I came into operation on 5 April 2005, the Administration had notified the trade about the relevant requirements and requested that oil tankers of 600 tonnes deadweight and above built after that day should be constructed with double hull for the carriage of heavy grade oil. For oil tankers concerned delivered before 5 April 2005 and intended to carry heavy grade oil, they were subject to the stringent inspections conducted by the Marine Department ("MD"), such as gauging of plate thickness at each inspection, to prevent any intended or accidental oil leakage from them.

*Marine-related legislative amendments*

11. Mr YIU Si-wing noted that the AFS Convention had been in force since 2008 while China ratified it in 2011. MD had authorized Recognized Organizations (international bodies specialized in the technical areas of ships entrusted by MD through contractual agreements to carry out certain services for ships) to carry out surveys on ships registered in Hong Kong and issue certificates (on an administrative basis) in accordance with the AFS Convention requirements, and so far, MD had identified no compliance problems with ships registered in Hong Kong or other ships navigating in Hong Kong waters. He

was very concerned why it took so long for the Administration to enact the local legislation.

12. PAS(T) acknowledged that Hong Kong was lagging behind in updating a number of local legislation to bring them into line with the latest requirements under the relevant international conventions. She explained that marine-related legislative tasks to be made were frequent and voluminous, and considerable time and efforts were required for the deliberations and preparation of detailed proposals for them. The Administration had been adopting a phased approach by prioritizing the amendment exercises and staggering their processing in batches. To expedite the relevant work, the Finance Committee ("FC") approved in February 2014 the establishment of a dedicated legal team in the Department of Justice ("DoJ"), comprising amongst others five Senior Government Counsel, to support the Transport and Housing Bureau and MD in taking forward the outstanding marine-related legislative exercises for the relevant international conventions.

13. In response to Mr YIU Si-wing's further enquiry about the number of outstanding marine-related legislative exercises, PAS(T) explained that according to the paper submitted to FC in February 2014, the related legislative work involved amendments to incorporate requirements under seven international conventions. Mr YIU requested the Administration to expedite the relevant legislative work as the compliance of said conventions was essential in upholding the international image of Hong Kong. PAS(T) advised that the dedicated legal team in DoJ was created for about 28 months from February 2014 with a view to completing the outstanding legislative exercises.

*Enforcement*

14. The Chairman supported early incorporation of the international conventions in local legislation in order to conserve the marine environment and ensure harbour safety with a view to enhancing Hong Kong's status as the international maritime centre. He enquired about enforcement and penalty in case OGVs were found breaching the local legislation in Hong Kong waters.

15. AD/MP replied that Hong Kong had the responsibility to implement port state control requirements under the Memorandum of Understanding on Port State Control in the Asia Pacific Region ("Tokyo MOU"). Under the Tokyo MOU, MD had to conduct random inspections for 15% of all non-Hong Kong registered vessels in the waters of Hong Kong. If an OGV was in breach of any relevant provisions in the local legislation, MD might detain the vessel or not allow it to proceed to sea until the situation was rectified.

16. AD/MP further advised that MD would normally notify the relevant authority of the flag state of the OGV concerned as well as neighbouring ports about the non-compliance. However, subject to the seriousness of the case, MD might also consider prosecuting the OGV's owner and/or master according to the local legislation.

Conclusion

17. The Chairman concluded that members generally supported the Administration's legislative proposals and invited the Administration to take note of members' views as appropriate.

**IV. Annual tariff reviews with the two power companies**

Meeting with the two power companies and the Administration

| | | |
|---|---|---|
| (LC Paper No. CB(4)242/14-15(05) | - | Presentation materials provided by The Hongkong Electric Company Ltd. |
| LC Paper No. CB(4)242/14-15(06) | - | Presentation materials provided by CLP Power Hong Kong Ltd. |
| LC Paper No. CB(4)242/14-15(07) | - | Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (background brief)) |

*Papers issued previously*

| | | |
|---|---|---|
| (LC Paper No. CB(4)231/14-15(01) | - | Submission from the Consumer Council (English version only) |
| LC Paper No. CB(4)231/14-15(02) | - | Consumer Council's report on "Searching for New Directions - A Study of Hong Kong Electricity Market" (English version only)) |

Presentation by the two power companies

18. At the invitation of the Chairman and with the aid of power-point presentation, representatives of The Hongkong Electric Co., Ltd ("HEC") and CLP Power Hong Kong Ltd ("CLP") presented the outcome of tariff reviews for 2015. Mr C T WAN, Managing Director of HEC remarked that the net tariff of HEC would be frozen in 2015, and Mr T C YEE, General Manager (Corporate Development) of HEC gave an account on HEC's 2015 tariff review. Mr Paul POON, Managing Director of CLP and Mr Joseph LAW, Planning and Development Director of CLP said that the average total tariff of CLP for 2015 would be increased by 3.1%. The details of their presentations were set out in the power-point presentation materials (LC Paper Nos. CB(4)242/14-15(05) and (06)).

> (*Post-meeting note*: The supplementary information provided by the two power companies and the speaking notes of MD/HEC were issued to members vide LC Paper Nos. CB(4)272/14-15(01) to (03) on 17 December 2014.)

Discussion

19. Dr LAM Tai-fai enquired about the revenue forgone if CLP also froze its tariff in 2015. Mr Paul POON of CLP advised that the revenue of the company would decrease by $1.3 billion if its tariff was not increased by 3.1%. In reply to Dr LAM's further enquiry, Mr Joseph LAW of CLP explained that CLP did not do forecast on its yearly profit.

> (*Post-meeting note*: CLP elaborated after the meeting that it was inappropriate for CLP to make projection of profit for public announcement.)

20. Given that the Administration had lowered the rate of economic growth for 2014 forecast due to the "Occupy Movement", Mr Christopher CHEUNG enquired if the tariff adjustments of the two power companies had already taken into account the declining trend of the local economy in 2015. He also enquired about the measures to be adopted to avoid over-estimation of electricity usage. Mr C T WAN of HEC replied that HEC did not consider the implications of the "Occupy Movement" when reviewing its tariff for 2015.

*Reserve margin and capital expenditure*

21. Referring to the Consumer Council's recent report on "A study of Hong Kong electricity market" ("CC Report"), Dr LO Wai-kwok expressed concern

that the reserve margin (also known as plant margin in the CC Report) of power plants in Hong Kong stood at 45% high while that in the United Kingdom was only 20%. He also relayed some public concerns that the high reserve margin would increase investments on generation facilities and push up the tariff.

22. Mr Paul POON of CLP clarified that the reserve margin of CLP in 2014 was only 26%, which was within the standard of 20% to 35% established by the International Energy Agency. He explained that the appropriate reserve margin was dependent on the required level of reliability as well as the characteristics of the system, for example, where CLP's generation units had large capacity in relation to the overall system size. Moreover, some of CLP's generation units were not suitable for long time operation, such as those of the Penny's Bay emergency facility and pumped storage. In his opinion, CLP's reserve margin of 26% was already relatively low.

23. Mr C T WAN of HEC advised that while the reserve margin of HEC was over 40%, it was contributed by, among others, five simple cycle gas turbines with a total capacity of 555 MW which could only be used under special circumstances set out in the relevant licence issued by the Environmental Protection Department. If such 555 MW capacity was discounted, the resulting reserve margin of HEC would drop to 23%, which was low having regard to the plant size of HEC.

24. Deputy Secretary for the Environment ("DSEN") supplemented that the reserve margin in Hong Kong would gradually be reduced to about 20% to 30% when some of the existing generation units retired one after another in the coming years, and this level was within the international standard.

25. Noting that HEC had planned to construct a new gas-fired unit ("L10") at a total estimated capital expenditure of $3 billion, Mr Christopher CHEUNG asked whether HEC would defer the plan in view of the worsening economic environment. Mr C T WAN of HEC explained that some of the existing coal-fired units would reach the end of their useful lives of 35 years or more and retire in the coming years. These included L1 and L2 in 2017, L3 in 2018, and L4 and L5 between 2022 and 2023. In addition, the five simple cycle gas turbines and another gas-fired unit, GT57, would also reach the end of their useful lives by 2019 and 2020 respectively. After discussion with the Government, HEC would extend the useful life of L2 to 2022, and commission L10 in 2020 to replenish the generation capacity as well as to meet the new emission caps.

26. Given the annual permitted rate of return of the power companies, i.e. 9.99% on the average net fixed assets, was related to their investments on

capital projects, Mr YIU Si-wing considered that the Administration should play an important gate-keeping role to screen out unnecessary expenditure items. He enquired about the justifications for approving the construction of L10 and whether the Administration had reviewed the usage rate of the existing generation units.

27. DSEN advised that the Administration, in conjunction with independent energy consultant, had exercised due care in reviewing the capital projects proposed by the power companies in their five-year development plans, particularly in terms of the need and timing for the projects. In fact, some of the capital projects proposed by the companies were not accepted by the Government. For example, under HEC's 2014-2018 Development Plan, the Government only approved the proposed L10 and did not accept the proposed gas-fired unit L11. DSEN said that it was justified to approve L10 which would replace three existing units due to retire in the coming years. He added that the replacement would help bring down the reserve margin to about 20% to 30%.

*Fuel Cost*

28. Mr LEE Cheuk-yan pointed out that according to CLP's projection made in end 2013, there would be a large increase of fuel cost for 2014 which necessitated a tariff increase at 11% for 2015 but the projection now turned out to be inaccurate. He recalled that in its 2014-2018 Development Plan, CLP projected its year-end balance of Fuel Clause Recovery Account ("FCA") in 2014 to be $1.4 billion but the company presented at the meeting that its FCA's 2014 balance doubled its projection and rose to $2.88 billion, $2.33 billion of which would be drawn down to enable CLP to limit its tariff increase for 2015 to 3.1% (representing a revenue of $1.3 billion). Noting that the relevant estimations had been reviewed by the Government jointly with the energy consultant it engaged, he was worried that the Administration could not perform its gate-keeper role properly and failed to take into account the significant drop of international oil price, leaving the customers unprotected.

29. DSEN remarked that the international fuel prices were highly volatile. He explained that FCA was established to smooth out the Fuel Clause Charge ("FCC") fluctuations, through which the difference between the standard fuel cost and the actual fuel cost was captured and passed on to customers by way of rebates or charges.

30. Commenting that CLP had repeatedly over-estimated fuel costs in its past projections, Dr Fernando CHEUNG requested CLP to give an explanation on this matter. Mr Paul POON of CLP replied that the company's projections

on fuel prices were always made in a prudent manner. He stressed that CLP staff had been working hard continuously in optimizing fuel deployment by four measures, including maximizing the use of cheaper gas, procuring more low emission coal, importing additional nuclear energy from Daya Bay Nuclear Power Station ("DBNPS"), and enhancing operation performance of generation plants and emission reduction equipment.

31. Dr LAM Tai-fai noted that CLP had made use of $2.33 billion out of the total FCA balance in 2014 to alleviate tariff increase in 2015. Given that the FCA balance had largely been reduced to $0.55 billion, he expressed grave concern that CLP's tariff might need to be increased significantly in 2016. Dr LAM noticed that CLP had lagged behind Singapore in terms of unplanned customer minutes lost per year during 2011-2013. He urged CLP to improve its reliability and catch up with that of Singapore.

32. Members noted that the Government had signed a Memorandum of Understanding on Energy Co-operation ("EC MOU") with the Mainland in August 2008, under which the Central People's Government provided a guarantee on the supply of natural gas from three sources, i.e. offshore gas, piped gas through the Mainland's Second West-East Natural Gas Pipeline ("WEPII") and via a liquefied natural gas ("LNG") terminal to be jointly built in Shenzhen.

33. While commending HEC for freezing its tariff in 2015, Mr SIN Chung-kai appreciated CLP's efforts in limiting its tariff increase to 3.1% which was much lower than the estimation made in end 2013. However, he foresaw that the rate of tariff increase would rise in future years as the company was facing pressure in fuel cost because of the higher price for the gas supplied via WEPII relative to that of the fast-depleting existing supplies from Yacheng gas fields. Given that the international oil prices had dropped by about 45% recently, he enquired if CLP could find any ways to take benefit from the drop of international fuel prices, and to review the contracted price of WEPII gas.

34. Mr Joseph LAW of CLP said that the recent downward trends in international fuel prices, such as coal price, would help reduce FCC and ultimately benefit CLP's customers. However, the company had to use almost a double of natural gas in order to meet the tighter emission caps imposed by the Government by 2015. While the price of WEPII gas consisted of a fixed-cost component and a variable component adjustable in tandem with the oil price, the actual fuel expenses would still be increasing due to the use of more gas. The benefit brought by the drop of coal price would thus be offset by the increased consumption of natural gas. Nevertheless, CLP would continue to closely monitor the international fuel prices and identify cheaper

sources of fuel.

35. In this connection, DSEN added that the drop of international fuel prices would help the power companies lower their fuel costs, which ultimately benefitted their customers.

36. Mr Frankie YICK enquired whether the power companies had compared the fuel prices from different sources, and assessed whether the resultant tariff would be affordable to the general public or not. Mr Paul POON of CLP said that the company had always endeavoured to look for cheaper fuels that would meet the emission standards. Back to about two decades ago, CLP had imported nuclear energy and also the gas from Yacheng. In 2013, the company had also started to use another type of low emission coal that would help reduce FCC. Mr C T WAN of HEC said that the fuel costs might be very different depending on the timing of signing the contract. For example, the fuel cost of one of the company's contracts signed in 2002 was US$5 per mmBtu whereas that of another contract signed in 2009 was over US$18 per mmBtu. To face the global challenge on fuel cost fluctuation, HEC had been working hard to find new source of gas supply and he was pleased to note that the new South China Sea oilfield had already commenced production.

37. Mr Kenneth LEUNG enquired if CLP was allowed under the EC MOU to source gas supply other than those from WEPII. Mr Paul POON of CLP replied that to align with the Government policy, CLP signed EC MOU with the Mainland in 2008 on the latter's supply of natural gas from, among others, WEPII which could help CLP to timely meet the Government's emission caps. In addition to the three sources stated in EC MOU, CLP was also conducting a preliminary study on a LNG floating storage and re-gasification unit, which would resemble a LNG terminal on a tanker, in Hong Kong.

38. Mr Kenneth LEUNG supported the use of floating LNG unit which had been in use in Singapore where natural gas was a major component in the fuel mix for electricity generation. DSEN responded that the Administration would give a careful consideration on the impact on tariffs when it received the company's proposal.

39. Mr TANG Ka-piu understood that the prices of both WEPII gas and imported Indonesian coal used by CLP would change with the international oil and coal prices respectively. Given the global oil price had fallen sharply in

CLP

late 2014 while CLP estimated that the total fuel cost in 2015 would be rising to some $15.45 billion, he doubted the company might have over-estimated the rate of increase of the fuel cost and enquired the point of time when CLP made such estimation. Mr Joseph LAW of CLP explained that CLP mainly used coal and natural gas for electricity generation whereas oil was rarely used. He added that while the drop of coal price had partially relieved the fuel cost increase, the significantly tighter emission caps for 2015 had driven up the total fuel cost by 50%.

40. In respect of the data provided by CLP on the movement of Consumer Price Index (A), the coal price (global COAL index) and the Japanese LNG import price, Mr TANG Ka-piu requested CLP to provide the relevant data from January to November 2014. Mr Joseph LAW of CLP undertook to provide relevant data after the meeting.

CLP

(*Post-meeting note*: CLP's written response was issued to members vide LC Paper No. CB(4)296/14-15(02) on 31 December 2014.)

*Tariff Stabilization Fund*

41. Dr Elizabeth QUAT relayed the public concern that both power companies should lower tariff for 2015 given that the international oil price had experienced a significant drop. She doubted if the two power companies had deposited the savings from lowered fuel costs into the Tariff Stabilization Fund ("TSF") and sought information on the balances of TSF accounts.

42. Mr C T WAN of HEC explained that the year-end balance of HEC's TSF and FCA in 2013 were $0.01 billion and $0.05 billion respectively (LC Paper No. CB(1)494/13-14(01)). The performance of FCA in 2013 was a good result comparing to the negative balances in previous years. He expected that HEC's FCA balance in 2014 would be about $0.57 billion resulting from the lowered coal price. Mr Paul POON of CLP reiterated that CLP's tariff increase in 2015 was due to the use of about a double of natural gas from WEPII to meet the significantly tighter emission caps. As such, although CLP's balance of FCA in 2014 would be $2.88 billion, $2.33 billion of which would be used to offset partially the increase of fuel cost in 2015, hence reducing the tariff increase.

43. Dr Fernando CHEUNG noted that TSF was maintained for the retention of net revenue in excess of the permitted return for the power companies based on their operations. He noted that for 2015, CLP's TSF balance would be used to offset, among other things, the significant increase of 3.8 cents per kWh of the company's operating expenses. He doubted the increase of operating expenses, apart from depreciation, was due to improper cost control and such increase would be passed on to customers when monies in TSF were fully exhausted.

44. Mr Joseph LAW of CLP replied that CLP had always strived to control the operating expenses and keep them at a low level. For example, the company had been exploring the feasibility to extend the useful lives of its electricity plants to lower the plant depreciation. He added that the level of operating expenses in 2014 would be lower than that of 2015 as a result of a refund of legal expenses in 2014 and a reduction in revenue generated from gypsum selling in 2015 due to the use of less coal.

*Fuel mix and future development of the electricity market in Hong Kong*

45. Mr Dennis KWOK noted that there was a detailed discussion about segregation of electricity generation from the power grid in the public consultation on the future development of the electricity market in Hong Kong (LC Paper No. CB(1)829/04-05(01)) held in 2005 to encourage competition. However, the public consultation on "Planning Ahead for a Better Fuel Mix – Future Fuel Mix for Electricity Generation" (LC Paper No. CB(1)1117/13-14(01)) conducted in 2014 ("2014 Fuel Mix Consultation") was silent on the matter and did not mention the liberalization of the local electricity market. It only focused on the fuel mix options for Hong Kong, including importing more electricity through purchase from the Mainland power grid which, as he understood, aroused much concerns among the local people who preferred not to rely too much on the Mainland. Mr KWOK queried whether the Administration had given up the option of segregation of electricity generation from the power grid, and requested the Administration to give an account on the pros and cons of the options between importing more electricity from the Mainland power grid and segregation of electricity generation from the power grid.

46. Secretary for the Environment ("SEN") said that the 2014 Fuel Mix Consultation had received an overwhelming public response, and among some 80 000 submissions, the mainstream view was for Hong Kong to generate its own electricity for use despite some people also supported importing more electricity from the Mainland power grid for a long term development purpose. SEN further advised that having regard to the expiry of the current Scheme of Control Agreements ("SCAs") in 2018, the Government would soon consult the public on the future development of the electricity market in Hong Kong, including the post-2018 regulatory framework and the fuel mix options. He stressed that the Government maintained an open mind to the segregation of electricity generation from the power grid.

47. Given the volatility of fuel prices, the Chairman asked whether it was feasible to adopt a more flexible approach in fuel mix deployment to alleviate tariff pressure on the general public. SEN said that the proposed fuel mix ratio

aimed at providing a basis for planning the necessary infrastructure for electricity supply. Fine-tuning should apply to actual deployment of each fuel type having regard to the circumstances happening on the ground. The Chairman hoped that the Administration would carefully choose a fuel mix option that would bring the greatest benefit to the customers.

48. The Deputy Chairman asked if the Administration and the power companies would consider increasing the use of nuclear power in electricity generation. He opined that given the volatility of fuel prices, nuclear power was more economical with stable supply. Mr Paul POON of CLP responded that the company was open to explore this option in the long run, subject to the Government policy, the decision on the fuel mix and technical feasibility. Echoing the view, Mr C T WAN of HEC added that in view of the small scale operation of HEC and the geographic location of the Hong Kong Island, there were technical and economical considerations for HEC to import nuclear power from the Mainland.

49. SEN said that the 2014 Fuel Mix Consultation had also discussed about the use of nuclear power. He stressed that the Government's energy policy was to ensure that the energy needs of the community were met safely, reliably, efficiently and at reasonable prices, while minimizing the environmental impact of electricity generation. Having regard to these objectives, the Government proposed two fuel mix options both of which focused more on the use of natural gas while exploring alternative energy sources such as nuclear power and renewable energy.

50. Noting that some 80% of the total output of the two nuclear reactors in DBNPS was exported to Hong Kong, Dr LO Wai-kwok enquired about the cost of using nuclear power vis-à-vis natural gas for electricity supply, and the feasibility of increasing the percentage of nuclear power in the overall fuel mix for Hong Kong. Mr Paul POON of CLP said that the company used to import 70% of the electricity output of DBNPS and had recently arranged for additional import of about 10% as a measure to mitigate the tariff impact. He further advised that the cost of the additional 10% of nuclear power, although higher than that of the original 70% agreed previously, was still lower than that of WEPII gas. He added that due to technical constraints, 80% was the maximum average amount of nuclear power which could be imported in a year and it was not feasible to increase the level to 100% for the time being.

51. Dr Fernando CHEUNG invited the Administration to share its views on other suggestions made in the CC Report to reform the Hong Kong's electricity market, such as providing access to power grids to enable competition, lowering the tariff through regulatory development and liberalization of the electricity

market. He also cautioned the Government to decide its stance timely in running up to 2018. SEN replied that the Administration was working on the paper regarding the future development of the electricity market in Hong Kong which would be issued for public consultation in the first half of 2015. The consultation document would take into account the key findings and suggestions made in the CC Report and cover possible development directions of the post-2018 electricity market.

52. Mr Frankie YICK noted from the CC Report that the current regulatory regime was not fair to the consumers in that the power companies were allowed to transfer to consumers the business risks associated with fuel price fluctuations. He considered that there might not be adequate incentives for power companies to explore cheaper gas sources. Dr Elizabeth QUAT shared a similar view. SEN said that the Administration and the power companies had acted within the framework of the existing SCAs which had been entered in 2008. He noted that the CC Report had put forward a package of key findings and suggestions for a gradual and progressive reform of the electricity market in Hong Kong.

53. The Chairman and Mr Frankie YICK enquired if the Administration had considered the CC Report's suggestion on investigating the feasibility of broadening the access of natural gas pipelines for fueling small-scale generation. The Chairman enquired further the feasibility of using natural gas to fuel small-scale electricity generation for large buildings/building compounds such as hospitals and university campuses, and whether this proposal would cause any implications on the power grids maintained by the power companies. SEN replied that although distributed energy generation was adopted in some overseas places, whether it was suitable for densely populated Hong Kong with high usage was uncertain. The Administration had been studying the feasibility of distributed energy generation and would give a view on this subject in the coming consultation.

*Other issues*

54. Noting that the Government's projects of sludge treatment facility in Tuen Mun and the waste incineration facility were able to turn waste to energy to be transmitted to the power grids, Dr LO Wai-kwok enquired if the Administration had any plans and agreements with the power companies on related arrangements. SEN said that the sludge treatment facility in Tuen Mun would commission in the first half of 2015 and the Administration had reached consensus with CLP that the energy generated in surplus would be transmitted to its power grid.

55. Mr WONG Kwok-hing expressed concern that those households living in cubicles and subdivided flats without independent electricity meters could not benefit from the frozen tariff as electricity expenses already formed part of the rent charged by the landlord. He enquired whether the power companies would devise measures to help these people.

56. Mr C T WAN of HEC highlighted HEC's concessionary tariff devised for needy domestic customers (LC Paper No. CB(4)242/14-15(05)). While HEC was willing to look into ways to help those households living in places without independent electricity meters, the safety concern on the usage of electricity in the premises which might not meet the Administration's safety standard should not be ignored.

Conclusion

57. The Chairman concluded that members hoped to see that electricity tariff could be maintained at a reasonable level. He urged the Administration to take note of members' concerns and suggestions raised at the meeting and addressed them in the coming consultation.

## V. Any other business

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

Council Business Division 4
Legislative Council Secretariat
13 February 2015