立法會
Legislative Council

LC Paper No. CB(4)481/15-16
(These minutes have been seen by the Administration)

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Panel on Economic Development

Minutes of meeting
held on Tuesday, 15 December 2015, at 4:30 pm
in Conference Room 1 of the Legislative Council Complex

Members present :

Hon James TIEN Pei-chun, GBS, JP (Chairman)
Hon CHAN Kam-lam, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Dr Hon LAM Tai-fai, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Albert CHAN Wai-yip
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon Gary FAN Kwok-wai
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
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Tony TSE Wai-chuen, BBS

Members attending :

Hon LEE Cheuk-yan
Hon Tommy CHEUNG Yu-yan, GBS, JP
Hon WONG Kwok-hing, BBS, MH
Hon CHAN Han-pan, JP
Hon CHAN Yuen-han, SBS, JP
Dr Hon KWOK Ka-ki

Members absent : Hon Jeffrey LAM Kin-fung, GBS, JP (Deputy Chairman)
Hon WONG Ting-kwong, SBS, JP
Dr Hon LEUNG Ka-lau
Hon Steven HO Chun-yin, BBS
Hon CHUNG Kwok-pan

Public Officers attending : Agenda item IV

Environment Bureau

Mr WONG Kam-sing, JP
Secretary for the Environment

Mr Vincent LIU, JP
Deputy Secretary for the Environment

Ms Esther WANG
Principal Assistant Secretary for the Environment (Financial Monitoring)

Agenda item V

Commerce and Economic Development Bureau

Miss Cathy CHU, JP
Commissioner for Tourism

Miss Rosanna LAW, JP
Deputy Commissioner for Tourism

Mrs Miranda YIM
Assistant Commissioner for Tourism (3)

Food and Environmental Hygiene Department

Mr LI Ka-Kei
Assistant Director (Operations)1

Related organizations	**:**	<u>Agenda item IV</u> <u>The Hongkong Electric Company Ltd.</u> 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) <u>CLP Power Hong Kong Ltd.</u> Mr Paul POON Managing Director Ms Quince CHONG Chief Corporate Development Officer Mr Joseph LAW Senior Director - Planning and Development Mr Stephen CHAN Director - 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 Lauren LI Council Secretary (4)5

Ms Zoe TONG
Legislative Assistant (4)5

Action

I. Application for late membership

(LC Paper No. CB(4)305/15-16(01) — Letter dated 26 November 2015 from Hon Gary FAN Kwok-wai (Chinese version only))

The Chairman referred to the letter from Mr Gary FAN and consulted members on his application for late membership of the Panel. Members accepted his application.

II. Information papers issued since the last regular meeting

(LC Paper No. CB(4)271/15-16(01) — Administration's progress report on the Tai Shue Wan development project of Ocean Park

LC Paper No CB(4)288/15-16(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from November 2013 to October 2015)

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

III. Items for discussion at the next meeting

(LC Paper No. CB(4)305/15-16(02) — List of outstanding items for discussion

LC Paper No. CB(4)305/15-16(03) — List of follow-up actions)

3. Members agreed to receive briefings by the Bureau Directors concerned on relevant policy initiatives in the Chief Executive's 2016 Policy Address and the two items below at the next regular meeting of the Panel to be re-scheduled to Tuesday, 26 January 2016, from 10:45 am to 1:15 pm –

(a) Staffing proposal on taking forward marine-related legislative amendments and systemic reform of the Marine Department to enhance maritime safety; and

(b) Staffing proposal to strengthen senior management in the Civil Aviation Department.

IV. Annual tariff reviews with the two power companies

(LC Paper No. CB(4)305/15-16(04) — Presentation materials provided by The Hongkong Electric Company Ltd.

LC Paper No. CB(4)305/15-16(05) — Presentation materials provided by CLP Power Hong Kong Ltd.

LC Paper No. CB(4)305/15-16(06) — Supplementary information provided by The Hongkong Electric Company Ltd. on 2016 Tariff Review

LC Paper No. CB(4)305/15-16(07) — Supplementary information provided by CLP Power Hong Kong Ltd. on 2016 Tariff Review

LC Paper No. CB(4)305/15-16(08) — Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (updated background brief)

LC Paper No. CB(4)351/15-16(01) — Administration's response to issues raised at the meeting on 23 November 2015

LC Paper No. CB(4)306/15-16(01) — Extract of draft minutes of meeting on 23 November 2015)

Presentation by the two power companies

4. At the invitation of the Chairman and with the aid of power-point presentation, representatives of The Hongkong Electric Company Ltd. ("HEC") and CLP Power Hong Kong Ltd. ("CLP") presented the outcome of tariff reviews for 2016. Mr C T WAN, Managing Director of HEC remarked that the net tariff of HEC would be reduced by 1.5 cents per unit in 2016, or a 1.1% decrease, and Mr T C YEE, General Manager (Corporate Development) of HEC gave an account on HEC's 2016 tariff review. Mr Paul POON, Managing Director of CLP, said that the average net tariff of CLP for 2016 would be reduced by 1 cent per unit, or a 0.9% decrease. The details of their presentations were set out in the power-point presentation materials (LC Paper Nos. CB(4)305/15-16(04) and (05)).

> (*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)305/15-16(06) and (07) and CB(4)370/15-16(01) on 17 December 2015.)

Discussion

Extent of tariff reduction

5. Noting the tariff reductions in 2016 would be coupled with increases of 2.9 cents and 1.7 cents in HEC's and CLP's basic tariffs respectively, Mr SIN Chung-kai asked whether there should be room for further reduction in the net tariffs, since the supply of oil and gas had increased due to the abolishment of sanctions in some oil-exporting and gas-exporting countries. Dr Elizabeth QUAT said that while Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong welcomed the reduction, she opined that the fuel cost was on a downward trend.

6. Mr C T WAN of HEC held that the current reduction rate of the net tariff had taken into consideration the long-term strategy of the company to stabilize the tariff. Mr WAN pointed out that the net tariff of HEC had only gone up by 4.7% over the past eight years. Since more natural gas would be used for electricity generation, Mr WAN said that HEC had to take into consideration the risk of fluctuation in gas prices. He hoped that there would only be that 4.7% hike in the tariff in the coming ten years. Mr WAN reiterated that the long-term goal of HEC was to stabilize the tariff.

7. Mr WONG Kwok-hing expressed concern that the rate of tariff reduction was too small. Mr WONG noted the report on "A study of Hong Kong

electricity market" issued by the Consumer Council remarking that the two power companies "[we]re allowed to earn a high risk-free permitted rate of return on their assets and to transfer to consumers the business risks associated with fuel price fluctuations, operational cost and forecasting error in relation to electricity demand". In this connection, he opined that the profits so earned by the two power companies in the past were very unreasonable. Mr WONG asked about the view of the Environment Bureau ("ENB") on the extent of tariff reduction, which he considered inadequate given that the fuel cost had gone down sharply in 2015. He also asked the two power companies to undertake to cut tariffs further and to extend the period of reduction.

8. Secretary for the Environment ("SEN") said that the Administration had been working hard in striking a balance between keeping a low tariff rate and providing a stable tariff over a longer period. He said that the initial plan by the two power companies was to freeze tariff. The rates of reduction now were considered acceptable after considering that much more expensive natural gas would be used in electricity generation in future to combat the problem of climate change and to improve air quality. The increased use of natural gas had partly offset the drop in the overall fuel market prices.

9. In response to members' call for further tariff reduction, Mr C T WAN of HEC said that HEC would reduce its tariff rate in 2016 despite its undertaking made in 2013 just to freeze it from 2014 to 2018 under the company's long-term strategy to stabilize tariffs. Mr WAN advised that the net tariff was only raised by 4.7% in eight years from 2008 to 2016 vis-à-vis 27% of inflation, which showed the effort of HEC to suppress the increase in tariff rate and to control the company's costs. He hoped that the same pattern could be maintained up to ten years.

10. Mr Paul POON of CLP said that the electricity industry required long-term planning and was capital-intensive. He advised that investment into the business could reach some ten billion dollars and the period of investment could range from 30 to 60 years. Therefore, the profits earned should reflect the investment risks involved. Mr POON advised that the 0.9% tariff reduction was not only the result of international fuel prices, but the fact that the use of natural gas, mostly via the more expensive Second West-East Natural Gas Pipeline ("WEPII"), for electricity generation was doubled in 2015 had been considered. Mr POON said that CLP was facing much pressure since even more natural gas supplied via WEPII would be used in order to meet the tightened emissions standards in 2017. However, he said that CLP would try its best to control costs and reduce expenditure. Mr POON replied that the average net tariff in 2017 would stay at the same level as 2016 if international fuel costs remained at current level.

11. Mr Andrew LEUNG supported the tariff cut the rate of which, however, was too small in view of the record-low fuel cost. In response, SEN said that the overall tariff adjustment covered the increase in the operating costs of the power companies. Factors like the increased use of natural gas in electricity generation and lower fuel costs had been considered in determining the net tariff.

12. Mr Albert CHAN said he had been criticizing for years that the Scheme of Control Agreements ("SCAs") meant guaranteed profits for the two power companies. Mr CHAN said that the profits of the two power companies had increased from $3.2 billion to $4.5 billion for HEC, and from $6 billion to $8.3 billion for CLP in the past three years. He also noted that there was little impact on the profits of the two power companies no matter the permitted rate of return was 13.5% or 9.99%. He commented that tariff reduction was only symbolic in view of the sharp drop in the prices of gas and oil. Remarking that SEN or former bureau directors concerned might not be well-versed in negotiating for commercial contracts, Mr CHAN appealed to ENB for a review on ways to press for greater cut in the net tariffs.

13. SEN replied that the matter was two-fold. While there was room for improvement for the current SCAs, the Government had to comply with the current SCAs in reviewing the tariff. SEN further explained that, with the support of an independent energy consultant, the Government had scrutinized the tariff proposals carefully and in a professional manner. SEN reiterated that the initial plan of the two power companies was to freeze the tariffs, and ENB had negotiated for tariff reductions.

14. Mr TANG Ka-piu said that tariff reductions were in line with the public's expectation and the economic environment. However, he expressed concern that only little downward adjustments had been made to the net tariffs despite the sharp decrease in international oil prices and doubted if ENB was unable to have a better grasp of the data from the two power companies to press them for greater tariff cuts.

15. In response, Deputy Secretary for the Environment ("DSEN") said that CLP had doubled its use of natural gas, which was more expensive, in these two years. The quantity of the fuel used was also crucial to the fuel cost of the power companies.

16. Dr KWOK Ka-ki opined that the two power companies were playing "number games" since the basic tariffs would actually go up, despite the small reductions in the net tariffs. Dr KWOK pointed out that HEC and CLP had increased their basic tariffs by 2.8% and 1.7% respectively. Moreover, HEC

was going to spend $3 billion on commissioning the L10 gas-fired unit which would further push up the basic tariffs. In addition, the reserve capacities, 20% that of CLP and 40% that of HEC, were too high and led to higher tariffs. Dr KWOK asked if SEN acceded to the rate of tariff reductions in 2016, and if he agreed that the two power companies were playing "number games". He also enquired if there would be any measures to curb the power companies from increasing their investment in fixed capital and yielding the maximum permitted returns.

17. SEN replied that although the cost of natural gas had gone down, the increased use of it had contributed to the overall tariff adjustments in 2016. SEN reiterated that the initial plan by the two power companies was to freeze rates, and ENB had negotiated with the companies for tariff reductions. He also said that there was room for improvement for some provisions in SCAs with the two power companies and intended to exercise more control on certain aspects in the new SCAs.

18. Mr LEE Cheuk-yan quoted a recent decision of the Organization of the Petroleum Exporting Countries that it was not going to reduce its oil output. In this connection, Mr LEE expected that fuel costs would continue to go down so he believed that there should be further room for tariff reductions. Mr LEE questioned why the Government did not press for higher reduction rates and opined that it was collusion between the Government and the business sector.

19. SEN replied that although more expensive natural gas would be used in future, the Government had pressed for tariff reduction. Noting SEN's explanation, Mr LEE Cheuk-yan queried SEN's negotiation skills in the discussion with the two power companies.

20. Dr LAM Tai-fai expressed his discontent towards the reduction rates and the explanation of SEN. He was very concerned that SEN was not doing enough in his gate-keeping role in tariff adjustment and that SEN did not seem to understand the difficulties faced by the general public. Dr LAM said that the international prices of oil and coal had hit seven years' and nine years' record-low respectively. It was to his dismay that the Administration had accepted a 1% reduction in the net tariffs for 2016 which in his opinion was not upholding the justice. He expressed grave concern that there was no need to set aside too much reserve in the power companies' Fuel Clause Recovery Account ("FCA").

21. Dr LAM Tai-fai enquired about the profit forecasts of CLP and HEC next year following the tariff cuts in 2016. Mr C T WAN of HEC advised that HEC's profit in 2016 would more or less be the same as that of 2015, while Mr Paul POON of CLP replied that it was inappropriate to forecast CLP's profit in 2016. He added that CLP had given rebates to its customers in mid-2015.

Fuel Clause Recovery Account

22. Mr SIN Chung-kai noted that although there were reductions in the net tariffs as a result of the drop in international oil prices, he enquired about the expected balance of the respective FCA of the two power companies by the end of 2015 in order to ascertain whether further reductions to 2016 tariff could be made.

23. Mr Paul POON of CLP told members that the balance of CLP's FCA by the end of 2015 was about $2.1 billion, accounting for some 15% of CLP's annual total expenditure on fuel cost. He considered the balance was a result of prudent and reasonable practices, taking into account the fluctuating fuel costs. Mr POON said that out of the past 30 years, the extent of fuel cost fluctuation in 19 years could reach up to 15% or more. Mr C T WAN of HEC informed members that the FCA balance of HEC by the end of 2015 would be about $2.2 billion, an amount attributed to the drop in fuel prices in 2014 which continued through to 2015. Mr WAN further advised that there had been deficits in HEC's FCA in the 10 or so years before 2013 but the company shouldered the financial burden solely instead of passing it on to its customers. He said that future fuel costs were expected to rise 10% provided that the global environment remained largely unchanged. Mr WAN said that fuel prices had been fluctuating and excessive fluctuations happened twice in the past 10 years. It was when oil prices rose from US$53 a barrel in late 2007 to US$146 a barrel within 18 months. The price again fluctuated from US$34 a barrel in late 2008 to US$126 a barrel in 2011. Mr WAN advised that a larger reserve in FCA was necessary to offset the risks brought about by the large fluctuations in fuel prices and HEC's plan to build a new gas-fired unit to meet the emissions reduction targets.

24. Mr TANG Ka-piu said that the rates of tariff reduction of just a few cents were far smaller when compared with the accumulated decrease of 80% of the fuel surcharge payable by long-haul air passengers, i.e. from $566 in January 2015 to $112 in December 2015. Mr C T WAN of HEC replied that the method of calculating fuel clause charges, and so was the mode of operation, was different from that of the air passenger fuel surcharge.

25. Mr TANG Ka-piu said that the two companies had always overestimated the fuel prices. For example, CLP had overestimated its fuel expenses and charged some $2 billion, $1 billion and $3 billion more in the past three years respectively, and that HEC had a similar balance in its FCA as CLP though its number of customers and hence expenses on fuel were supposed to be lower. Mr TANG asked whether ENB would regularly inspect the FCAs of the two

power companies so that rebates could be made to customers during 2016 if the fuel prices continued to drop. DSEN advised that fuel prices were volatile which made accurate fuel cost forecast difficult. ENB had engaged an independent energy consultant to examine the estimates made by the two power companies. Also, the quantity of gas used by the power companies, which were more expensive than coal, would affect the total fuel costs of the power companies. In addition, the change in the power companies' fuel costs might not fully correspond to that of international fuel prices since fuel price was only one of the factors to be taken into account in deciding the fuel contract price.

26. Noting that the balance of the FCA of HEC at $2.2 billion amounted to some 60% of its fuel expenses, Mr TANG Ka-piu urged HEC to provide rebates to its customers. Mr C T WAN of HEC explained that an annual average was used to determine HEC's fuel cost and 30% reduction in its fuel clause charges had been accumulated in the past three years. He added that HEC's total net tariff had only increased by 4.7% over the years.

27. Mr CHAN Kam-lam said that given CLP's forecast in its five-year plan that its net tariff would go up gradually in the coming years, he urged CLP to control its expenses. Having regard that oil prices would remain highly volatile, Mr CHAN asked if the intervals of reviewing the fuel price could be shortened in order to adjust the tariff more frequently. He also suggested setting a cap for the balance of FCAs so that rebates could be provided to the public if the balance had exceeded the cap.

28. Mr Paul POON of CLP emphasized that the company had always been cautious in controlling its expenses. Mr POON advised that CLP had tried hard to lower the fuel cost by maximizing usage of relatively cheaper natural gas from Yacheng gas field, improving the emissions performance and efficiency of its electricity generation units, importing 10% more nuclear power from the Daya Bay Nuclear Power Station ("DBNPS"), and sourcing for more environmental-friendly coal. Mr POON said that the $2.1 billion balance in CLP's FCA was only 15% of its annual total expenditure on fuel cost. He reiterated the large extent of fuel price fluctuations in the past 30 years, and added that CLP was willing to explore the possibility of shortening the intervals of reviewing the fuel cost adjustment.

29. Mr C T WAN of HEC stressed that HEC had paid much effort in stabilizing the net tariff in spite of the fluctuations in fuel cost in the past 10 years. Mr WAN opined that shortened intervals of fuel price estimation might not be able to catch up with the frequent fluctuations in fuel prices. Mr WAN explained that due to the long duration of a gas contract, it was difficult to get an average figure regarding the average gas cost over such a long

period of time. However, Mr WAN believed that working out an average fuel cost over a one-year span could help stabilize the net tariff.

30. Mr LEE Cheuk-yan requested for written information on the present balances of the two power companies' FCA as well as those six months and one year ago.

(*Post-meeting note*: Administration's written response was issued to members vide LC Paper No. CB(4)407/15-16(01) on 28 December 2015.)

31. Dr Fernando CHEUNG pointed out that though the net tariffs had decreased, the basic tariffs were increased. Noting that there was a balance of $2 billion in CLP's FCA, Dr CHEUNG said that CLP had severely overestimated the fuel cost. He recalled that CLP and HEC had claimed in the 2014 tariff reviews that there would be a deficit of $1.5 billion and $0.3 billion in their respective FCA by end 2015. However, it now turned out to be a surplus of $2.1 billion and $2.2 billion in CLP's and HEC's FCAs respectively. In this connection, Dr CHEUNG asked why the Administration did not press the two power companies for larger tariff cuts.

32. DSEN explained that the basic principle was to avoid huge fluctuations in the net tariff. The frequently fluctuating oil prices, the increased use of natural gas in the future few years due to the tightened emissions standards, and the need to build more gas-fired units for achieving the use of 50% natural gas in the fuel mix in 2020 were all factors for maintaining the positive balance in FCA.

33. Dr Fernando CHEUNG asked further when FCA would reach equilibrium or even a deficit. DSEN advised that whether FCA would reach equilibrium depended on the oil prices in the coming few years. Even if the oil prices remained stagnant, the balance of FCA of one of the power companies could almost be exhausted in two to three years' time.

Emissions reduction

34. With reference to the Paris Climate Change Conference ("PCCC") recently held in Paris, Mr Dennis KWOK asked whether the Administration was confident that the two power companies could achieve the emissions reduction targets by 2020 as set out in the Paris Agreement ("PA") taking into consideration their fuel mix and the mode of electricity generation. If the answer was in the negative, Mr KWOK asked how ENB would step up measures, like encouraging electricity generation by wind energy once explored by HEC, to achieve such targets.

35. SEN advised that all parties to PA should adopt more ambitious and innovative methods in order to reach the targets in PA and this would be a big challenge to all parties. SEN advised that a multi-pronged approach, including in areas of fuel mix, energy saving, green buildings etc should be adopted in order to achieve the targets. He believed that it would be an opportune time to discuss with the two power companies on such matters since the next SCAs would have to be negotiated next year.

36. Dr Elizabeth QUAT asked if ENB would review and discuss with the two power companies regarding the emissions reduction targets agreed in PA. Dr QUAT commented that Administration's plans on reducing emissions, promotion of renewable energy ("RE") and electric cars, and constructing a zero emissions city were merely slogans without any substance. In this connection, she enquired about the Administration's goals in reducing emissions and the timeline of achieving such goals.

37. SEN replied that the Administration had been working hard to reduce carbon emissions. A target had been set to reduce carbon intensity by 50%-60% in 2020 as compared to the level in 2005. He supplemented that the emissions reduction target of Singapore was to cut some 30% of the emissions by 2030. SEN advised that the Administration would mainly achieve emissions reduction through fuel mix, energy conservation in the built environment, transportation and waste reduction. He said that in the aspect of power supply, the new SCAs to be negotiated with the two power companies next year would be a good opportunity to step up the effort, basing on the results of the previous consultations on fuel mix and the future development of the electricity market in Hong Kong. For energy conservation in the built environment, he advised that many countries recognized that the emissions reduction targets of Hong Kong as stated in the "Energy Saving Plan for Hong Kong's Built Environment 2015~2025+" were ambitious, and needed to be implemented gradually. SEN advised that fuel mix and energy conservation in the built environment played a major role in emissions reduction in Hong Kong, while transportation and waste reduction played a supporting role in doing so. He added that ENB would work with other government departments on reducing emissions to the targeted level. SEN said that after PCCC, all signatories of PA had to set their own nationally determined contribution from 2020 to 2030 to reach the targets set in PA.

38. Mr Andrew LEUNG said that the targets in PA were bold, and should be met with long-term measures. The cost would be high if work on achieving the targets started only near 2030. As SEN said that it would be an opportunity for the Government to discuss emissions reduction with the two power

companies when negotiating the new SCAs next year, Mr LEUNG asked what the Government would do in such an opportunity.

39. SEN advised that the Administration had set different targets to reduce emissions and combat climate change. These included setting the 2020 carbon intensity reduction targets, setting the energy intensity reduction target of 40% by 2025 under the "Energy Saving Plan for Hong Kong's Built Environment 2015~2025+", etc. More had to be done to achieve the targets in PA, and that reviews on the work in reducing emissions had to be carried out within the Government and with various sectors in the future.

40. Mr Tony TSE welcomed the tariff reductions and said that a stable power supply was important for a cosmopolitan city and a financial centre like Hong Kong. Mr TSE opined that the Administration must be confident to reach the emissions reduction target of reducing carbon intensity to 50% – 60% of the 2005 emissions level by 2020. SEN replied that Hong Kong needed to have an open and bold attitude in order to achieve the targets in PA.

Nuclear power

41. Ir Dr LO Wai-kwok commended that electricity supply in Hong Kong had been safe which was essential for a city with such a dense population and a large variety of commercial activities like Hong Kong. Noting that there were no natural resources for electricity generation in Hong Kong due to its natural constraints, and that oil prices fluctuated greatly between US$50 and US$150 per barrel, Ir Dr LO asked if there was any long-term plan for a high-quality, reliable and affordable source of fuel for electricity generation in Hong Kong. Quoting the example of DBNPS that nuclear power was clean and safe, Ir Dr LO enquired about the possibility of importing more nuclear power under safe conditions. Mr Tony TSE shared the same concern and opined that the Government should have an open attitude to such an increase.

42. DSEN replied that more nuclear power, i.e. from 70% to 80%, generated by DBNPS would continue to be imported to Hong Kong after 2018. DSEN informed the meeting that in summer which was usually the peak season of electricity use, more than 90% of the output from DBNPS had already been imported which had almost reached the maximum capacity.

43. Ir Dr LO Wai-kwok enquired further if there were any other sources of nuclear power from nearby power plants apart from DBNPS for the long-term development of electricity generation. DSEN advised that diverse views from the community were expressed in the public consultation in 2014 regarding the use of nuclear power. He advised that there would be an import of 10% more

of nuclear power, i.e. 25% of the fuel mix in Hong Kong, by 2020. DSEN also advised that a review on the future fuel mix would be conducted in the long run.

44. In response to Mr Andrew LEUNG's enquiry if the Government would consider increasing nuclear power in the fuel mix pursuant to PA's emissions reduction targets, SEN said that a multi-pronged approach, including promoting RE, energy conservation in the built environment, fuel mix, etc, should be adopted. He advised that it was a good opportunity to further embody such factors in the future agreements to be negotiated with the two power companies.

Demand side management

45. Mr Tony TSE asked if the Government had done anything to encourage the two power companies to do more on energy management in the built environment, given the fact that the built environment had taken up 90% of the energy consumption in Hong Kong. He further enquired the progress of the promotion of smart meters, and if anything could be done to encourage the public to save energy.

46. Mr C T WAN of HEC informed the meeting that smart meters were now at the testing stage. He advised that users of smart meters were mostly customers with high energy consumption, while only selected customers with lower energy consumption level used smart meters. Mr WAN said that HEC had discussed with the Government regarding smart meters in its five-year plan. Mr WAN said that consumers would know more about their status of energy consumption and might change their habit of electricity consumption after using the smart meters. Mr WAN hoped that it could encourage a more environmental-friendly and efficient energy consumption pattern. Mr Paul POON of CLP told members that CLP had set up the Eco Building Fund in 2014 for promoting energy management in the built environment. Currently, CLP had received 32 applications and the amount of subsidies was over $16 million.

Tariff stabilization fund

47. Mr Dennis KWOK remarked that if part of the basic tariff would be contributed to the Tariff Stabilization Fund ("TSF"), he was concerned about the method of calculation of TSF.

48. Mr C T WAN of HEC replied that a clear mechanism regarding the calculation of TSF had been set out in the current SCA. Mr WAN explained that if the annual income was insufficient to cover HEC's expenditure, funds from TSF would be used to offset the expenditure. On the contrary, the

surplus would be deposited into TSF if the tariff received was more than the company's expenditure. Mr WAN supplemented that there was a cap, which stood at 5% of the annual total revenues from local sales of electricity, to TSF. Mr Paul POON of CLP informed the meeting that the TSF balance of CLP was $0.6 billion in 2015 and expected to be $0.5 billion in 2016. Mr POON added that money contributed to CLP's TSF was only 1% of the company's annual total revenues from local electricity sales, far below the 5% cap.

49. Dr Fernando CHEUNG asked why CLP could set aside $0.6 billion from the company's profit to its TSF. DSEN advised that setting aside funds to TSF was allowed in SCA in order to ameliorate future tariff increase and to stabilize the tariff. According to the current SCA, CLP could not reserve more than 5% of its local electricity sales in TSF. In 2015, CLP only set aside about 1% which was a rather low level compared to the level allowed in the SCA.

Conclusion

50. The Chairman thanked representatives of HEC, CLP and the Administration for attending the meeting, and requested them to take note of members' concerns raised at the meeting.

V. Food Trucks Scheme

(LC Paper No. CB(4)305/15-16(09) — Administration's paper on introduction of food trucks to Hong Kong

LC Paper No. CB(4)305/15-16(10) — Paper on the Food Trucks Scheme prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

51. At the invitation of the Chairman, Commissioner for Tourism ("C for T") briefed members on the Administration's plan to launch a food truck pilot scheme which aimed to add fun and vibrancy to Hong Kong's tourist attractions by providing diverse, creative and high quality food options to tourists and the locals, while maintaining the good standard of food hygiene and safety in Hong Kong. The scheme would be positioned as a tourism project to enhance and complement the existing food landscape in Hong Kong and to bring more specialty gourmet food to tourists and the locals, along the avoidance of any

unnecessary competition with existing restaurants. This arrangement would help test out the consumer market and enable the Administration to gain experience in the regulation and operation of the food truck business in Hong Kong with a view to enhancing the scheme in future. The pilot scheme would be opened for application in the first quarter of 2016 so that successful applicants could commence the operation by end of 2016. The Tourism Commission ("TC") would establish a dedicated office under it to coordinate the implementation of the pilot scheme and related licensing matters, providing one-stop service.

> (*Post-meeting note*: A joint submission from the Justice and Peace Commission of the Hong Kong Catholic Diocese, United Hawkers Development Platform, 撐.基層墟市聯盟, Community Development Alliance and Hong Kong Art and Design Community and the letter from Hon Tommy CHEUNG Yu-yan were issued to members vide LC Paper Nos. CB(4)370/15-16(02) and CB(4)372/15-16(01) respectively on 16 December 2015.)

Discussion

Objective and positioning of the proposed pilot scheme

52. A majority of Members speaking at the meeting disagreed with the approach suggested by the Administration on taking forward the proposed food truck pilot scheme. Dr Fernando CHEUNG pointed out that the public had high hope of the initiative which was put forward by the Financial Secretary ("FS") in his Budget Speech for 2015-2016 but the current proposed scheme was inconsistent with the public expectation. Mr Kenneth LEUNG expressed doubts on the project viability and enquired whether TC had studied the FS' original idea of food truck that he was actually referring to food van or food cart. Sharing the views of Dr CHEUNG and Mr LEUNG, Miss CHAN Yuen-han suggested that the initiative, instead of being positioned as a tourism project, should be taken forward jointly by the office of FS and the Secretary for Commerce and Economic Development ("SCED"). C for T pointed out that according to Budget Speech, the food truck initiative was a way to enable visitors to enjoy delicacies and Hong Kong's spectacular scenery at the same time. TC was subsequently delegated to take forward this initiative, with his knowledge that it would be positioned as a tourism project.

53. Mr CHAN Kam-lam commented that food truck operation was not a new idea in overseas, and Hong Kong might simply learn their experiences instead of putting forward such a pilot scheme with stringent requirements that could only be complied with by large consortia possessing the required

resources. Regular-sized food operators were disappointed with the proposal as they could hardly take part in it. He noted that instead of pursuing the so-called creative and high quality food options which might simply refer to the famous dish "roasted duck" or other food options recommended by Michelin, the food trucks in overseas places were only selling simple local food, such as sausages and burgers in the United Kingdom. Taking into consideration the small size of food trucks, he expected that the variety of food available from them would be limited to local street food such as meat balls and cart noodles which were quite popular among the tourists.

54. Sharing a similar concern, Mr WU Chi-wai criticized that the proposed approach was ineffective and would restrict the overall development of the food truck initiative. He referred to the Michelin's recommendations and commented that local street food options such as sticky rice pudding and egg waffle were also delicacies of Hong Kong but they might not be included under the pilot scheme.

55. C for T responded that the food truck initiative was positioned as a tourism project, given that Hong Kong had long been branded as a Gourmet Paradise with diverse food options widely available. In this connection, the pilot scheme focused on providing more specialty gourmet food with creativity which would be distinct from those being offered by other food establishments or chain restaurants. This could help lift the attractiveness of the tourist attractions. She added that the pilot scheme did not impose any restrictions to prevent any individuals or enterprises from participation. In fact, the arrangement of the cook-off challenge would allow shortlisted applicants to demonstrate to the panel combining culinary experts the creativity and/or distinctiveness of the food to be offered, rather than comparing the size of their representing companies or the resources to be spent on the project.

56. Miss CHAN Yuen-han considered that the Administration solely put forward a food truck proposal from its management angle and had not taken into account the public expectations on this matter. She opined that this pilot scheme was designed in a wrong direction which would not provide opportunities for grass roots to make a better living by starting a food truck business. Echoing Mr CHAN Kam-lam's views, she considered that Hong Kong might just devise a food truck operation scheme based on overseas experiences. In this connection, she showed the meeting some photos of food trucks operating in various overseas locations, and considered that food trucks should be conveniently located to provide simple local food. She was disappointed that this good initiative to be taken forward in this way would only drive public grievances further as only large consortia would have the resources to operate the food trucks. She urged C for T to relay her views to the Administration for reconsideration.

57. While expressing support to the idea of introducing food trucks to Hong Kong, Dr LAM Tai-fai however did not appreciate the food trucks pilot scheme as currently proposed. He considered that food truck operation was a kind of small business with small turnover, and hence its operation should be flexible with low entry threshold to allow the participation of business starters and young operators with a view to enhancing business and economic development of Hong Kong. However, the entry threshold of the current proposal was set too high which might deter these people from joining the business, leaving the initiative in the hands of large consortia. He urged the Administration to reconsider the approach of promoting food trucks business to make it more appealing to small operators. C for T said that an open application would be arranged for the scheme and all individuals and companies were welcomed to take part. In addition, no restriction would be imposed on the type of food to be provided.

58. Echoing members' concerns, Mr Frankie YICK enquired about the parties which had been consulted by the Administration before devising the pilot scheme. C for T advised that in considering a food truck scheme suitable for Hong Kong, the Administration had consulted many stakeholders of the catering industry, who expressed support for implementing the pilot scheme as a tourism project to allow the participation of people from all walks of life with the avoidance of any unnecessary competition with existing food establishments. She also drew members' attention to Mr Tommy CHEUNG's letter tabled at the meeting (LC Paper No. CB(4)372/15-16(01)) which also expressed a similar view.

59. Mr YIU Si-wing expressed support for the proposal which would impress tourists and help promote tourism. He added that some annual festive events with low investment costs such as the Hong Kong Wine and Dine Festival and other celebrations for Halloween were always widely welcomed by tourists. Moreover, local people could also enjoy the food options provided by food trucks.

60. Mr Kenneth LEUNG enquired if the pilot scheme could allow just the sale of different kinds of coffee. C for T stressed that the objective of the scheme was to bring to tourists and locals more specialty gourmet food rather than general food options already available in existing food establishments. Otherwise, the need to introduce food trucks would be undermined.

Licensing requirements and regulatory framework

61. Mr CHAN Kam-lam and Mr Frankie YICK considered that the estimated cost of $600,000 for the food truck as mentioned by SCED earlier was very high. Mr YICK commented that young operators could hardly afford such cost. Mr CHAN enquired if the Administration would accept food trucks modified from second-hand vehicles.

62. C for T explained that the said amount was in fact an estimated price for a food truck modified from a brand new goods vehicle. For the pilot scheme in question, an applicant could take the liberty to choose a suitable vehicle, whatever it was brand new or second-handed, as long as it was equipped with a suitably fitted out food preparation compartment, issued with a Food Factory Licence by the Food and Environmental Hygiene Department ("FEHD") and following the licensing requirements and regulatory framework set out for the scheme.

63. Noting that the proposed food trucks should meet the prevailing emissions standard of goods vehicles (currently Euro V level or equivalent), Mr Kenneth LEUNG considered this too stringent, and would likely bring up the cost of the vehicle to around $500,000 to $600,000. C for T said that it was of utmost important to ensure that the food safety and environmental hygiene requirements were duly complied with by food truck operators as they would be allowed to cook raw food for selling in the trucks. Current requirements set for food trucks were considered necessary by FEHD and relevant departments and were similar to those in overseas, as listed in the Annexes of the Administration's paper.

64. Mr WU Chi-wai expressed grave concerns on the licensing requirements. For example, the proposed food truck scheme restricted the use of generators which were commonly used for food truck operations in most of the overseas cities studied by the Administration and Hong Kong operators could only rely on the grid power provided by the relevant management authorities of the identified food truck venues. He considered that the proposed food truck scheme requiring the provision of a well-equipped and decent kitchen and might deter many interested parties from taking up the business. He urged the Administration to relax the requirements by making reference to overseas experience, and regulate the management of the identified venues rather than the food trucks themselves so as to enhance the development of food truck business.

65. C for T responded that overseas governments usually introduced the food truck initiative prudently so as to avoid issues such as traffic congestion, road blockage and undue impact on existing food establishments. In designing

a suitable scheme for Hong Kong, the Administration had taken into account local characteristics, such as dense population, narrow streets and an abundant presence of food establishments throughout the territory which had to bear high rentals and employees' salaries. To this end, the Administration proposed to launch this pilot scheme with a view to enhancing it in future with the experience gained.

66. Sharing members' concern that large consortia could easily afford the startup cost of the pilot scheme while small and medium enterprises ("SMEs") and young operators could not, Mr YIU Si-wing expressed concern that some conflicts might arise. Hence, he enquired whether a special quota of the pilot scheme would be designated for SMEs and/or young operators. C for T responded that to encourage and assist start-up entrepreneurs to take part in the scheme, TC had worked out with the Hong Kong Mortgage Corporation Limited ("HKMC") that food truck applicants might apply for a loan up to $300,000 under the existing Microfinance Scheme. HKMC would also provide support services including mentorship and entrepreneurial training, such as proposal drafting, for applicants. In addition, applications would be scrutinized carefully so that every individual or company could make no more than one application. Moreover, the selection criteria would be established on a fair basis focusing on food creativity and delicacies, whereas the factor of young participants might be considered when setting the marking scheme.

Operating locations

67. Dr Fernando CHEUNG was disappointed that although the Administration had done a lot of preparations including the conduct of a study and a duty visit to Sydney, the proposed pilot scheme only provided 12 pitches for food trucks to operate in six proposed locations. In his opinion, the operating scope was so small that the annual revenue of the food trucks altogether might be less than the cost spent by the Administration on the project. He noted that many people at the grass root level would like to start a small-cost business under this initiative by selling simple food at idle venues during festive occasions. He suggested the Administration to enlarge the scope of the pilot scheme and enhance the food truck operation through, for example, leasing out the Government land for holding events with the presence of food truck operation. This could provide the public with more opportunities for starting small-cost business and food options at lower prices.

68. C for T responded that in identifying the six proposed locations, TC had taken into account the objective and positioning of the pilot scheme, and factors such as no obstruction to the public space, no issues on traffic management and road safety, adequate flow of people in the operating locations to ensure

business opportunities, and avoidance of unnecessary competition with other food establishments. In addition, there were site owners/management authorities for these locations who could provide support services such as cleansing and waste disposal etc.

69. Echoing Dr Fernando CHEUNG's view, Mr WU Chi-wai urged the Administration to refer to overseas experience and consider adjusting the operating locations of food trucks which would normally be located at more remote areas, e.g. bicycle tracks and water promenades, instead of operating near tourist attractions to compete with existing food establishments in crowded districts. Mr Kenneth LEUNG shared a similar view and said that food trucks in overseas were always located in places with scattered food establishments whereas the six proposed operating locations were proximate to other food establishments. In addition, Tsim Sha Tsui Salisbury Garden was currently closed for renovation, and subject to the progress of works, it was expected to be reopened only in the first half 2017.

70. C for T relayed a positive response from catering associations toward the pilot scheme which considered that the current proposal could strike a balance among various factors, including the presence of an adequate flow of people in the tourist attractions to sustain business opportunities and avoidance of road blockage.

Application and selection procedure

71. Noting that the successful applicant could commence operation by the end of 2016, Mr CHAN Kam-lam was concerned about the lengthy application and selection process and asked whether it could be accelerated. C for T explained that the proposed pilot scheme would be opened for application in the first quarter of 2016 and would allow one to two months for applicants to submit applications. It was expected that the cook-off challenge be arranged in mid 2016 for shortlisted applicants. Successful applicants would then be invited to submit formal licence applications through TC to FEHD and the Transport Department. Taking into account the time required by the successful applicants in acquiring or modifying vehicle after receiving TC/FEHD's approval-in-principle for the food truck operation, successful applicants were expected to commence their business by end of 2016.

72. Mr Frankie YICK considered that food trucks were expected to provide simple food conveniently for people who looked for snack rather than feast. As such, he asked for the rationale for holding a cook-off challenge. Dr LAM Tai-fai also expressed his reservation on the cook-off challenge and considered that the food truck business would be driven by the operators' sensitivity to the

market needs instead of the tasting judgment of the panel concerned. In response, C for T said that the cook-off challenge was important to allow the applicants to demonstrate whether they could indeed prepare the food with creativity/distinctiveness and good quality. She understood that many young people found the cook-off challenge providing a good opportunity to showcase their skills. In response to Dr LAM's further question, C for T said that the operator might change the food option he/she was allowed to sell if the market response was not positive, but he/she should demonstrate again the preparation of the new food option with quality and creativity.

73. Mr YIU Si-wing suggested adding more elements into the pilot scheme to encourage public participation. For example, for the cook-off challenge, the successful applicants could be selected by the public instead of by a panel in order to arouse public awareness and solicit their support. C for T responded that the detailed arrangement of the pilot scheme was still under reviewed and Mr YIU's suggestion could be taken into consideration.

Administration's scheme for setting up bottom-up hawker bazaars

74. Mr Frankie YICK commented that the current scheme was largely inconsistent with the public expectation, and enquired whether the Administration would also consider implementing another similar scheme with lower start-up cost and less licensing requirements to test the market. C for T said that another initiative was currently available for interested parties to set up bottom-up hawker bazaars, in accordance with the framework as discussed by the Subcommittee on Hawker Policy (LC Paper No. CB(4)1497/14-15) ("the bazaar scheme"). Assistant Director (Operations)1 of FEHD supplemented that under the bazaar scheme, the Food and Health Bureau ("FHB") and FEHD kept an open mind towards any proposal to set up district-led open-air hawker bazaars at any suitable sites identified by proponent which commanded broad local support, including the relevant District Councils. FHB/FEHD would facilitate liaison with relevant departments on implementation of such proposals.

75. Dr Fernando CHEUNG and Mr SIN Chung-kai invited the Administration to consider the food truck proposal put forward by related organizations in their submission (LC Paper No. CB(4)370/15-16(02)). Mr Frankie YICK also commended the feasibility of the proposal. C for T responded that TC had previously discussed with the Justice and Peace Commission of the Hong Kong Catholic Diocese, one of the parties of the joint submission, about the pilot scheme as well as the availability of the bazaar scheme.

76. In response to Mr SIN Chung-kai's further question, C for T explained that the pilot scheme and the proposal put forward by related organizations were primarily positioned on different basis. She stressed that operators of food trucks should comply with the requirements on food safety and environmental hygiene as they would be allowed to cook raw food for selling on the trucks.

Public hearing

77. Mr LEE Cheuk-yan considered that this pilot scheme proposed with stringent requirements was devised half-heartedly without any creativity. He suggested this Panel to hold a public hearing to gauge public views on the proposal. Echoing Mr LEE's suggestion, Dr Fernando CHEUNG considered that a public hearing could provide a platform for gauging public views and suggestions for the Administration to consider on this matter. Dr CHEUNG also requested SCED to attend the public hearing along with C for T. The Chairman suggested discussing this request at the next Panel meeting to be held on 26 January 2016.

Conclusion

78. Summing up, the Chairman requested the Administration to take note of members' concerns raised at the meeting.

VI. Any other business

79. There being no other business, the meeting ended at 6:40 pm.

Council Business Division 4
Legislative Council Secretariat
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