

立法會
Legislative Council

LC Paper No. CB(4)552/17-18
(These minutes have been seen
by the Administration)

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Panel on Economic Development

Minutes of meeting
held on Tuesday, 12 December 2017, at 4:00 pm
in Conference Room 1 of the Legislative Council Complex

Members present : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon Alvin YEUNG (Deputy Chairman)
Hon James TO Kun-sun
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon Charles Peter MOK, JP
Hon Alice MAK Mei-kuen, BBS, JP
Hon Dennis KWOK Wing-hang
Dr Hon Elizabeth QUAT, BBS, JP
Hon Martin LIAO Cheung-kong, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Andrew WAN Siu-kin
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying

Hon LUK Chung-hung
Hon Jeremy TAM Man-ho

Members attending : Hon LEUNG Che-cheung, SBS, MH, JP
Dr Hon KWOK Ka-ki
Dr Hon Fernando CHEUNG Chiu-hung
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon Tanya CHAN
Hon HUI Chi-fung

Members absent : Hon Kenneth LEUNG
Hon Christopher CHEUNG Wah-fung, SBS, JP
Hon CHU Hoi-dick

**Public Officers
attending :** Agenda item III

Mr Wallace LAU, JP
Deputy Secretary for Transport and Housing
(Transport) 4

Ms Joyce CHAN
Principal Assistant Secretary for Transport and
Housing (Transport) 9

Miss Linda SO
Deputy Director-General of Civil Aviation (2)

Mr Alan SHUM
Assistant Director-General of Civil Aviation (Air
Services and Safety Management)

Ms Yamani CHAN
Chief Operations Officer (Technical Administration)
Civil Aviation Department

Agenda item IV

Mr WONG Kam-sing, GBS, 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)

**Related
organizations**

: Agenda item IV

The Hongkong Electric Company Limited

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 Limited

Mr CHIANG Tung-keung
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

Ms Karen CHOW
Strategic Planner

Clerk in attendance : Ms Shirley CHAN
Chief Council Secretary (4)5

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

Ms Lauren LI
Council Secretary (4)5

Ms Zoe TONG
Legislative Assistant (4)5

Miss Mandy LUI
Clerical Assistant (4)5

Action

I. Information papers issued since the last meeting

(LC Paper No. CB(4)285/17-18(01) — Administration's response to the submission dated 30 October 2017 from families of victims of the vessel collision incident near Lamma Island as set out in LC Paper No. CB(4)161/17-18(01)

LC Paper No. CB(4)313/17-18(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from November 2015 to October 2017)

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

II. Items for discussion at the next meeting

(LC Paper No. CB(4)325/17-18(01) — List of outstanding items for discussion

LC Paper No. CB(4)325/17-18(02) — List of follow-up actions)

2. Members agreed to discuss the following items at the next regular meeting scheduled for Monday, 22 January 2018 at 10:45 am –

(a) Proposed making and amending of the subsidiary legislation under Merchant Shipping (Safety) Ordinance (Cap. 369) and Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) for implementation of the International Convention for the Prevention of Pollution from Ships ("MARPOL"), the International Convention for the Safety of Life at Sea ("SOLAS") and the International Convention for the Control and Management of Ships' Ballast Water and Sediments ("the Ballast Water Management Convention") of the International Maritime Organization ("IMO"); and

(b) Proposed making of the subsidiary legislation under Merchant Shipping (Safety) Ordinance (Cap. 369), Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) and Merchant Shipping (Seafarers) Ordinance (Cap. 478) for implementation of the International Code for Ships Operating in Polar Waters ("Polar Code") of IMO.

3. Mr James TO requested to expedite the arrangement of a meeting to discuss the Report of the Transport and Housing Bureau's Investigation into Staff Conduct in the Marine Department in relation to the Vessel Collision Incident near Lamma Island on 1 October 2012. The Chairman replied that the Administration had been requested to provide a further response on this matter.

(Post-meeting note: The Administration's further response was issued to members vide LC Paper No. CB(4)453/17-18(01) on 10 January 2018.)

III. Regulation of unmanned aircraft systems

(LC Paper No. CB(4)325/17-18(03) — Administration's paper on regulation of unmanned aircraft systems in Hong Kong – consultancy study and way forward

LC Paper No. ISE20/15-16 — Essentials on regulation of drones in the United States and Singapore prepared by the Research Office of the Legislative Council Secretariat

LC Paper No. CB(4)325/17-18(04) — Paper on regulation of unmanned aircraft systems prepared by the Legislative Council Secretariat (background brief)

LC Paper No. CB(4)27/16-17(02) — Letter from Hon Jeremy TAM dated 24 October 2016 proposing discussion on the regulation of unmanned aircraft systems (Chinese version only)

Presentation by the Administration

4. At the invitation of the Chairman, Deputy Secretary for Transport and Housing (Transport) 4 ("DSTH4") briefed members on the progress of the consultancy study on the regulation of unmanned aircraft systems ("UAS") in Hong Kong commissioned by the Civil Aviation Department ("CAD"). Details were set out in LC Paper No. CB(4)325/17-18(03).

5. With the aid of the powerpoint presentation material, Assistant Director-General of Civil Aviation (Air Services and Safety Management) briefed members on the existing legislation on regulation of UAS in Hong Kong, the six key recommendations on the regulation of UAS made by the consultant, and the way forward. He also informed members that CAD planned to commence a public consultation on the consultant's recommendations in the first quarter of 2018, which was aimed to be completed by mid-2018.

(*Post-meeting note:* The powerpoint presentation material provided by the Administration was issued to members vide LC Paper No. CB(4)366/17-18(01) on 13 December 2017.)

Discussion

Regulation of UAS

6. Referring to the incident that during the Formula E Hong Kong e-Prix held in early December 2017, a UAS fell within the precincts of the venue and a person was injured when dodging to avoid the falling UAS, Mr CHAN Chun-ying supported stepping up the regulation of UAS since similar incidents would endanger the safety and property of the public. He also enquired whether Government's use of UAS was regulated.
7. Deputy Director-General of Civil Aviation (2) ("DDGCA2") advised that the recommendations made by the consultant aimed to safeguard public safety without undermining the development of UAS. Under Article 48 of the Air Navigation (Hong Kong) Order 1995 (Cap. 448C), a person should not recklessly or negligently cause or permit an aircraft to endanger any person or property. All persons including the operator of the UAS in the Formula E Hong Kong e-Prix incident mentioned and operators of UAS for Government use should comply with the provision.
8. The Chairman sought information on the complaints relating to UAS received by CAD. DDGCA2 advised that from 2014 to November 2017, CAD had received 136 complaints about UAS, most of which were related to privacy and safety issues.
9. The Chairman was worried that UAS might be used for carrying drugs and dangerous goods for illegal purposes. As such, he urged the Administration to consider prescribing limitations on the types of goods that UAS could carry in the regulatory regime so as to ensure public safety. The Chairman also expressed concern about cross-border operation of UAS, and urged the Administration to take the subject matter into consideration in formulating the relevant regulatory proposal.
10. Ms Claudia MO expressed concern about the enforcement of the key recommendations made by the consultant in future. She opined that although UAS were currently governed by certain civil aviation legislation in Hong Kong, it was difficult for the authorities concerned to enforce the relevant laws.

11. Mr Michael TIEN suggested that devices such as a flight data recorder should be installed in UAS for recording their flying altitude, speed and location, which would facilitate the relevant authorities to effectively monitor UAS operations. He urged the Administration to consider mandating the installation of such devices in UAS. In response, DSTH4 advised that the Administration would consider Mr TIEN's suggestion, or other possible means to serve the purpose.

12. Mr Holden CHOW said that while welcoming the use of UAS in different respects, the Democratic Alliance for the Betterment and Progress of Hong Kong had been calling for appropriate regulation of UAS to safeguard public safety. He referred to the online registration system for UAS owners and/or operators as proposed by the consultant, and sought to confirm whether the "owners" and/or "operators" should be registered.

13. DDGCA2 advised that the consultant recommended that the registration requirement for UAS could be based on the risks of UAS operations under a risk-based approach. While UAS of lower operational risk (e.g. "Category A2" UAS) would only require the owners to register, UAS of higher operational risk (e.g. "Category B" UAS) would require the registration of both owners and operators due to the relevant training and assessment requirements to be stipulated.

14. Mr CHAN Chun-ying was of the view that UAS could be used to perform certain law enforcement duties to alleviate the manpower pressure of law enforcement agencies. He suggested the Administration consider using UAS for law enforcement duties where appropriate. Besides, he noted that according to the current CAD guidelines, flying sites for UAS should be clear of persons, vessels, vehicles or structures. Such conditions might pose constraints to the use of UAS in law enforcement work in future.

15. DDGCA2 advised that under the risk-based approach recommended by the consultant, UAS which were considered to have higher operational risk would be subject to more stringent safety requirements, but the risk-based approach would no longer differentiate the use/purpose of UAS.

16. Ir Dr LO Wai-kwok considered it essential to establish a UAS registration system and to require labeling of UAS. In this connection, he enquired about the implementation timeline for such a measure. The Chairman also enquired about the implementation timetable of the registration system.

17. Mr WU Chi-wai supported stepping up the regulation of UAS in Hong Kong. He however expressed concern about the enforcement of the proposed registration system, and urged the Administration to include the subject matter in the public consultation.

18. DDGCA2 advised that public consultation on the recommendations made by the consultant, which included consulting the public on the proposed UAS registration system, was planned to be commenced in the first quarter of 2018 and to be completed by mid-2018. The Administration planned to put forward the relevant regulatory proposal within two years after the completion of the public consultation. She further advised that consideration had been given to providing a convenient way for UAS owners/operators to register. An online registration system was thus proposed by the consultant but details such as verifying related documents had yet to be hammered out and the Administration looked forward to receiving further suggestions from the public concerning the proposed registration arrangement.

19. Mr Jeremy TAM expressed support for the regulation of UAS in Hong Kong and the proposed approach. He shared with the meeting the views he had received earlier and urged the Administration to consider such views in the upcoming public consultation. While there were divided views on the regulation of UAS, respondents considered it important for the Administration to provide clear drone maps with delineation of no-fly zones for UAS operators. There were concerns about the privacy protection and the purchase of third-party insurance by UAS owners. Some considered that should there be a licensing regime for UAS owners/operators, the registration procedures should be kept to the minimal and the assessment requirements should not be too stringent. Some suggested that UAS owners/operators should be required to register under their real names. Exemptions to certain requirements should be granted to racing drones which were operated in designated areas. Public education and publicity efforts should be stepped up to enhance public awareness of the new requirements. Concerns were also raised about the regulation of converted UAS and the UAS brought into Hong Kong by tourists.

Mapping of no-fly zones

20. Mr WU Chi-wai noted that no-fly zones in Hong Kong covered a wide range of areas including country parks, the airport, military sites, and certain premises of the Leisure and Cultural Services Department and the Correctional Services Department. He enquired if the mapping of no-fly zones for UAS would be covered in the public consultation.

21. DDGCA2 advised that at present there were a number of areas which did not allow the flying of UAS. In the public consultation on the consultant's recommendations, CAD would liaise with relevant government departments and gauge views from stakeholders regarding the no-fly zones. DSTH4 added that since different government departments were involved in the enforcement of no-fly zones in Hong Kong, enhanced communication among the departments was essential in enforcing the relevant laws effectively. CAD would explore the feasibility of utilizing technologies available in the relevant law enforcement work.

22. Referring to the incident that a UAS fell within the venue and a person was injured during the Formula E Hong Kong e-Prix in December 2017, Ir Dr LO Wai-kwok said that UAS falling on tracks for high-speed racing cars could pose serious safety threats to the public. Since the event only lasted for two days every year, he asked if it was possible to establish temporary no-fly zones at venues of the said event.

23. The Chairman remarked that the safety concerns arising from the incident during the Formula E Hong Kong e-Prix were of members' concern. He urged the Administration to take into consideration roads with heavy traffic in establishing no-fly zones in future. Besides, he was of the view that the public should be well informed of the details of the military sites which were no-fly zones, and that the public should be consulted on the mapping of no-fly zones in non-military sites.

24. In order to ascertain if most UAS operators in Hong Kong complied with the restrictions of no-fly zones, the Deputy Chairman sought information on the number of reports relating to disruption caused by UAS to manned aircraft for civil aviation purposes received by CAD. DDGCA2 replied that she did not have detailed information at hand but as far as she recalled CAD had not received reports of disruption caused by UAS to airplanes.

Third-party insurance

25. Mr Holden CHOW noted the consultant's proposal that UAS operations of higher risk must be covered by third-party insurance. He asked if the insurance trade had been consulted before coming up to such a proposal, in particular on the cost of underwriting the relevant insurance policies. He urged the Administration to adequately consult the insurance trade and the public on issues relating to third-party insurance in the formulation of the regulatory proposal.

26. DSTH4 advised that the Administration was aware of the small insurance market in Hong Kong which might pose difficulty for UAS operators to purchase third-party insurance. However, he expected that relevant insurance products would be available in the market if third-party insurance was mandated for certain types of UAS operations in future. He further advised that the public consultation would cover matters related to the purchase of third-party insurance for UAS operations.

Protection of privacy

27. Ms Claudia MO was surprised to find that the recommendations made by the consultant did not cover the privacy issues arising from the use of UAS for aerial photography which had become increasingly popular. In this connection, she called on the Administration to take into consideration the protection of privacy in formulating the regulatory proposal for UAS operations. She also urged the Administration to conduct thorough consultation in formulating such proposal.

28. DSTH4 advised that privacy related matters of UAS fitted with a camera were currently under the regulation of the Personal Data (Privacy) Ordinance (Cap. 486), which was enforced by the Office of the Privacy Commissioner for Personal Data ("PCPD"), if collection of personal data was involved. PCPD had also published a Guidance on CCTV Surveillance and Use of Drones which provided the public with the necessary guidelines on the responsible use of UAS fitted with a camera to address the privacy concerns. Upon the request of Ms Claudia MO, DSTH4 undertook to provide further information on the regulation of UAS from the perspective of privacy protection under Cap. 486.

(Post-meeting note: The Administration's written response was issued to members vide LC Paper No. CB(4)472/17-18(01) on 11 January 2018.)

29. Mr Michael TIEN noted the consultant's recommendation that no registration would be required for UAS of lower operational risk. He however was of the view that all UAS fitted with a camera should be registered regardless of their weight owing to the privacy concerns arisen. He also urged the Administration to cover privacy issues in the upcoming public consultation. DSTH4 replied that the subject matter would be included in the public consultation.

Conclusion

30. The Chairman invited the Administration to take note of the views and concerns expressed by members at the meeting in formulating the regulatory regime for UAS operations.

Motion

31. Mr Michael TIEN moved the following motion –

"本委員會促請政府當局就以下範疇展開探討，並研究在公眾諮詢收集意見：

- (一) 研究無人機若有攝影功能或裝置，不論重量，均須登記；
- (二) 研究無人機須配備適當儀器(例如飛行記錄儀、遠距離識別系統等)和功能(例如可預設飛行高度)方可操作的可行性，以讓相關部門將來有效監察無人機的操作；
- (三) 研究透過跨局、跨部門合作，在公眾諮詢中一併收集對無人機所牽涉的私隱問題的意見，共同探討處理私隱和安全問題的方法，讓各部門的規管政策得以互相配合。"

(Translation)

"This Panel urges the Administration to commence review and look into the possibility of collecting views in public consultation on the following aspects:

- (I) to consider imposing registration requirement for all UAS with image capture functions or devices, regardless of their weights;
- (II) to explore the feasibility of requiring UAS to be equipped with suitable equipment (e.g. flight data recorder, long range identification system, etc.) and functions (e.g. capable of presetting flying altitude) before they can be operated, so as to enable relevant departments to effectively monitor UAS operations in future;
- (III) to explore the possibility of collecting views on privacy issues

relating to UAS in public consultation through inter-bureau/inter-departmental cooperation for seeking solutions to address issues of privacy and safety together, so that the regulatory policies of respective departments can complement one another."

32. The Chairman ruled that the motion was directly related to the agenda item under discussion. Members agreed that the motion should be dealt with at the meeting.

33. The Chairman put the motion to vote. A majority of members took part in the voting voted for the motion. The Chairman declared that the motion was carried.

(Post-meeting note: The Administration's response to the motion was issued to members vide LC Paper No. CB(4)473/17-18(01) on 11 January 2018.)

IV. Annual tariff reviews with the two power companies

(LC Paper No. CB(4)325/17-18(05) — Powerpoint presentation materials provided by CLP Power Hong Kong Ltd.

LC Paper No. CB(4)325/17-18(06) — Powerpoint presentation materials provided by The Hongkong Electric Company Ltd.

LC Paper No. CB(4)325/17-18(07) — Supplementary information provided by CLP Power Hong Kong Ltd. on 2018 Tariff Review

LC Paper No. CB(4)325/17-18(08) — Supplementary information provided by The Hongkong Electric Company Ltd. on 2018 Tariff Review

LC Paper No. CB(4)325/17-18(09) — Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (updated background brief)

Presentation by the Administration and power companies

34. At the invitation of the Chairman, Mr C T WAN, Managing Director of The Hongkong Electric Company Ltd. ("HEC") remarked that the net tariff of HEC would increase by 1.9% to 112.5 cents/kWh in 2018 after counting a special rent and rates rebate of 4 cents/kWh and a special fuel rebate of 16 cents/kWh. Mr Joseph LAW, Senior Director - Planning and Development of CLP Power Hong Kong Ltd. ("CLP") advised that from 1 January to 30 September 2018, CLP's net tariff would also increase by 1.9% to 115.4 cents/kWh after counting a special rent and rates rebate of 1.1 cents/kWh. With the aid of power-point presentation materials, Mr T C YEE, General Manager (Corporate Development) of HEC and Mr Joseph LAW of CLP gave an account on their companies' respective tariffs for 2018. The details of their presentations were set out in the power-point presentation materials (LC Paper Nos. CB(4)325/17-18(05) and (06)).

(Post-meeting note: The supplementary information of the two power companies and the speaking note of the Managing Director of HEC were issued to members vide LC Paper Nos. CB(4)325/17-18(07) and (08) and CB(4)367/17-18(04) on 13 December 2017.)

35. Secretary for the Environment ("SEN") said that the special rebates of the two power companies were ad hoc in nature. In particular, HEC had provided for the second year a large special fuel rebate that would substantially reduce the surplus balance in its Fuel Clause Recovery Account ("FCA"). SEN added that to achieve the pledged environmental targets for better air quality and carbon emission performance in 2020, Hong Kong was transforming to use more cleaner but expensive natural gas and the power companies were required to construct more gas-fired generating units for power generation. These would exert pressure on the future electricity tariffs.

Declaration of interest

36. Mr LEUNG Che-cheung declared that he was a honorary member of a local customer advisory committee of CLP.

Discussion

Tariff adjustments for 2018

37. Mr CHAN Chun-ying enquired about the estimated tariff reduction as a consequence of the reduction in the permitted rate of return ("RoR") from 9.99% to 8% under the new Scheme of Control Agreements ("SCAs") signed between the Government and the two power companies.

38. Mr CHIANG Tung-keung, Managing Director of CLP, replied that the RoR reduction would help reduce CLP's basic tariff when the new SCA commenced but the latter was also subject to a basket of factors including the company's operating cost and sales forecasts. CLP would submit a new development plan to the Government setting out the expected adjustments on tariff over the next 5-year development plan period and relevant factors for discussion and approval.

39. Dr KWOK Ka-ki expressed concern that although the net tariffs of both companies only increased by 1.9% in 2018, their basic tariffs had surged substantially as compared with that for 2013. He criticized that the power companies had been continuously pushing up their capital expenditure as well as the basic tariffs so as to increase their ultimate profits. To protect the public interests, he urged the Government to step up efforts to avoid unnecessary capital investments by the power companies.

40. Ms Tanya CHAN relayed the media news that HEC had originally proposed a double-digit increase in its basic tariff but its proposal was vetoed by the Executive Council ("ExCo"). She raised concern about the effectiveness of the negotiation conducted by the Administration with the power companies before the proposals were put forward to ExCo. Noting the large reduction of the FCA balances, she asked about the measures in place to ensure the affordability of electricity supply.

41. SEN explained that in monitoring the electricity market, the Government paid due regard to strike a balance among the four energy policy objectives of safety, reliability, affordability and environmental performance. With a view to

conserving the environment, it was a public consensus to pay more for switching to natural gas for power generation. This was in fact a common direction pursued by many international cities. Meanwhile, new initiatives including an RoR reduction and a control of peak demand would be introduced under the new SCAs to help maintain tariff affordability and stability.

42. Mr C T WAN of HEC stressed that HEC had honoured the pledge made in 2013 to freeze tariff for five years and the 2018 net tariff were even lower than that of 2013 by 16.6%. HEC had strived to provide the lowest tariff to its customers in face of the heavy pressure arising from the surge of international coal and oil prices by about 40% in 2017.

43. Mr CHIANG Tung-keung of CLP pointed out that CLP had provided to customers a total of \$2 billion fuel rebates in 2015 and 2017 which resulted in a reduction in the FCA balance.

44. Referring to the fuel cost spent by the power companies in 2017, Mr WU Chi-wai noticed that the average fuel price of natural gas consumed by CLP and HEC were \$86.0 per gigajoule and \$54.1 per gigajoule respectively. He was concerned about the large difference between CLP and HEC's gas prices, and enquired whether the higher price of CLP's gas was caused by the use of the piped gas from the Second West-East Natural Gas Pipeline ("WEPII").

45. Mr CHIANG Tung-keung of CLP responded that the natural gas sourced from WEPII was more expensive than that from the Yacheng gas field and the average of them was \$86 per gigajoule in 2017. In response to Mr WU Chi-wai's further enquiry, Mr CHIANG said that the usage of nuclear power by CLP would be maintained at a constant level during the contract period.

46. Mr LUK Chung-hung enquired about the mechanism adopted by the Administration/ExCo to monitor the annual tariff reviews in the new SCA term, in particular, the monitoring of FCAs which were persistently in large surplus. He also enquired if any suitable measures could be devised to lower the power companies' RoR below the permitted level in case their proposed adjustments were unjustifiable.

47. Mr SHIU Ka-chun considered that the permitted RoR in SCAs had in fact protected the power companies from taking business risk. He expressed dissatisfaction over the favourable remuneration packages offered by the power companies to their senior staff and urged the Government to closely monitor the remuneration expenditure of the power companies to reduce their operating costs.

48. In response to Mr SHIU Ka-chun's enquiry about the mechanism in place to monitor the operating costs of the power companies, Deputy Secretary for the Environment ("DSEN") explained that during annual tariff reviews, the Government would critically review the power companies' proposals with the assistance of an independent consultant to ensure that the proposed tariffs were reasonable. The Government would review the operating costs of the power companies and compare them with those of relevant businesses, examine the capital investment projects proposed by the two power companies, and ascertain if the fuel cost forecasts were in line with the market expectation.

Future tariff rates

49. Mr Holden CHOW said that the electricity tariffs kept on rising even with the special rebates provided by the power companies. Having regard to the need of using more natural gas for power generation by 2020, he was worried that the tariff rates would rise significantly in future. He suggested that the Administration could negotiate with the power companies to cap the tariffs at a reasonable level, similar to the case of HEC freezing its tariff for a period of time.

50. SEN responded that while the public noted the cost impact of using more natural gas for power generation, the Government would continue to play its monitoring role through the new SCAs to ensure the stability of future tariffs. However, it was difficult to estimate the future gas cost or cap the tariff rates having regard to the uncertainty in the trend of the international fuel prices.

51. Ms Claudia MO pointed out that using more natural gas for power generation would definitely increase the fuel cost and capital investment by the power companies and hence drove up the tariffs under the current market structure which was monopolized by the two power companies. To address the matter effectively, the Government should consider changing the fundamental structure of the electricity market under the SCA framework. She also cast doubt on the Government's estimation that there would be a 5% tariff reduction as a result of the RoR cut of the power companies in the next SCA term.

52. SEN explained that according to the Administration's previous estimation, there would be a tariff decline of above 5% arising from the RoR reduction from the commencement of the new SCA term if all other relevant factors (including fuel cost) remained unchanged. These factors would be hinged on the change of international fuel prices as well as the future

development plans of the power companies. The Government would review the power companies' upcoming development plans in due course.

53. Ir Dr LO Wai-kwok remarked that it was stated in the previous public consultation on the local electricity market that the use of cleaner natural gas for better environmental protection would result in tariff increase. Given that the international oil prices had fluctuated greatly in the past years, he was concerned about the power companies' strategies to control fuel cost, in particular, the progress of exploring more gas sources and building an offshore liquefied natural gas ("LNG") terminal in Hong Kong.

54. Mr C T WAN of HEC replied that since HEC only had a single source of natural gas, i.e. the Dapeng LNG terminal, it was essential for HEC to explore more sources to meet the Government's requirement of increasing the gas usage from the current 34% to 50% by 2020. Currently HEC was exploring with CLP in building an offshore LNG terminal. The related Environmental Impact Assessment report might be submitted to the Environmental Protection Department in 2018. It was expected that the LNG terminal could be in use by 2020.

55. The Deputy Chairman noted that the local fuel cost was highly affected by the international fuel prices. He was concerned about the impact of global gas prices on electricity tariffs, and how far the future tariffs could be benefitted from the introduction of the new offshore LNG terminal.

56. Mr C T WAN of HEC explained that the prices of natural gas would move correspondingly with the international oil prices. HEC imported gas from the Dapeng LNG terminal through two contracts with different terms and conditions for importing gases from Australia and Qatar. The construction of an offshore LNG terminal would provide an additional piped-gas infrastructure which could be connected to container ships transporting LNG bought from the international market at a competitive price.

57. Mr CHIANG Tung-keung of CLP responded that CLP purchased natural gas from the Yacheng gas field in the South China Sea and WEPII through dedicated pipelines. The existing pipeline infrastructure provided limited choices for CLP to procure natural gas from other sources. With the construction of an offshore LNG terminal, the power companies would be able to purchase LNG in the global market.

Promotion of energy savings and development of renewable energy

58. The Chairman pointed out that the incident of extensive power outage in Macao during a previous typhoon had highlighted the importance of maintaining a stable power supply in Hong Kong. Instead of simply focusing on the tariff rates which were subject to many uncertainties, more efforts should be made on promoting energy savings with a view to preserving the environment and reducing the overall expenditure on electricity. He also urged the power companies to reward customers on energy savings.

59. SEN stressed that the new SCAs had provided for various initiatives to enhance the development of energy savings. For example, the scope of the new Eco-Building Fund of CLP and the Smart Power Fund of HEC would be expanded from non-commercial buildings to both commercial and non-commercial buildings to help promote energy efficiency and conservation in the wider community.

60. Mr CHIANG Tung-keung of CLP said that CLP had been making efforts to promote energy savings through a number of measures. For example, CLP had offered the Energy Saving Rebate Scheme at low electricity consumption levels to encourage energy conservation by customers. CLP had also organized the "Power Your Love Programme" under which the saving earned in electricity saved by participating customers was donated to families in need to reduce their electricity expenses. Two new funds would be set up under CLP's new SCA to help customers replace their electrical appliances or equipment with more energy-saving ones.

61. Mr C T WAN of HEC considered that in addition to the new measures to be adopted under the new SCAs, the progressive tariff structure was effective to help reduce energy consumption and drive demand side management.

62. The Chairman suggested that the Government should map out the overall planning of future development of renewable energy ("RE") and energy savings with the power companies so that the latter could be prepared for the new requirements. In response to Ir Dr LO Wai-kwok's enquiry about the detailed plan to promote distributed RE development and timetable of introducing the feed-in tariff ("FiT"), SEN said that the Government was discussing with relevant stakeholders and the power companies on the FiT introduction. It was expected that the detailed approach would be announced by the second quarter of 2018.

Helping needy families on electricity tariffs

63. Mr LEUNG Che-cheung raised concern that the future tariff rise might be significant and pose heavy pressure on the public, in particular for the tenants of sub-divided units ("SDUs") who had already been overcharged by landlords on the use of electricity. He enquired about the Government's response to the motion moved by him and passed by the Panel on Welfare Services on providing a summer energy subsidy to these tenants.

64. DSEN replied that a new Community Energy Saving Fund would be established under the new SCAs by each of the power companies to support the disadvantaged groups, including SDU tenants. The Administration was working with the power companies on the best way to utilize the Community Energy Saving Fund and it would brief the relevant Panel on the outcome in the first half of 2018.

65. Ms Quince CHONG, Chief Corporate Development Officer of CLP, supplemented that installing meters for their customers had always been CLP's responsibility. CLP would strive to install individual meters for SDU tenants as far as possible provided that the tenants had sought the agreement of their owners and management bodies of the buildings to such arrangement, and that the electrical installations of the concerned tenants complied with the safety requirements of relevant legislation and the requirements set out in the Supply Rules of CLP. In addition to this, CLP had also provided other assistance, including sponsoring some energy efficient electrical appliances and the provision of one-off allowance, to the needy households.

V. Any other business

66. There being no other business, the meeting ended at 6:00 pm.