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5 February 2021

Ms Doris LO
Clerk to Panel
Legislative Council Secretariat
Legislative Council Complex,
1 Legislative Council Road,
Central, Hong Kong

Dear Ms Lo,

Panel on Development

Letter from Hon Tony TSE Wai-chuen on Supply of Dongjiang Water

I enclose our response to the letter of 25 January 2021 from Hon Tony TSE Wai-chuen to the Chairman of the Panel on Development of the Legislative Council.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Thomas T.Y. Chan'.

(Thomas T.Y. CHAN)
for Secretary for Development

Encl.

Hon Tony TSE Wai-chuen's Questions on Supply of Dongjiang Water

In regard to the letter of 25 January 2021 from Hon Tony TSE Wai-chuen to the Chairman of the Panel on Development of the Legislative Council, the Development Bureau's responses to the Hon TSE's questions regarding the supply of Dongjiang water are set out below.

Arrangement of Dongjiang (DJ) Water Supply Agreement

2. We notified the Panel on Development (the Panel) in advance on 17 November 2020 that we would brief the Panel about the content of the 2021-2023 DJ Water Supply Agreement (the New Agreement) at its meeting scheduled for 22 December 2020. However, the meeting was eventually cancelled owing to the severe situation of the COVID-19 epidemic. We therefore circulated an information paper on the New Agreement to the Panel Members on 21 December 2020 and uploaded the paper onto the Legislative Council's website on the same day for the Panel Members and public's reference. We subsequently signed the New Agreement with the Guangdong (GD) side on 28 December 2020 to ensure that Hong Kong will continue to have a reliable and flexible supply of DJ water until the end of 2023.

DJ Water Price

3. The DJ water price is adjusted according to the water price adjustment mechanism stipulated in the 1989 DJ Water Supply Agreement, where factors to be considered include changes in the exchange rate between Renminbi (RMB) and Hong Kong dollars (HKD), changes in relevant price indices of both sides, and increases in operation costs. With respect to the first two factors, reference is made to the RMB/HKD exchange rate and the relevant changes in price indices of both sides over the preceding three years as the basis of water price adjustment in the negotiation for a new agreement between the GD side and Hong Kong. Both sides then negotiated for the final adjustment taking into account the justifications put forward by either side in respect of any increase in the operation costs. The annual adjustment of water price under the New Agreement differs from that of the 2018-2020 agreement primarily because the magnitudes of variations in respect of the above-mentioned factors are different.

4. Since the adjustment in DJ water price is mainly based on the changes in the RMB/HKD exchange rate and the relevant price indices of GD and Hong Kong, it is impracticable to predict the future adjustment in DJ water price at this stage. Nevertheless, since the DJ water supply agreements are recurrent in

nature, consistent use of the current mechanism for water price adjustment should, in the long run, balance off the effects of the short-term fluctuations of the relevant factors.

Annual Supply Ceiling Quantity and Ultimate Annual Supply Quantity

5. As DJ water is an important water resource to many GD cities, the GD authorities have formulated the “Water Resources Distribution Plan in the Dongjiang River Basin of Guangdong Province” (“Distribution Plan”) setting out the maximum amount of water that respective GD cities and Hong Kong can draw from DJ. The Distribution Plan allocates an annual supply with a maximum quantity of 1 100 million cubic metres (mcm) for Hong Kong. That is, the GD side has agreed that Hong Kong could raise a request for increasing the annual supply ceiling quantity up to 1 100 mcm based on actual needs. Whilst Hong Kong being allocated with such right, the GD side has agreed to our request for deferring the supply up to this quantity based on the needs of Hong Kong.

6. We carried out a detailed analysis based on the latest fresh water demand forecast and estimated that the annual demand for DJ water in 2021 to 2023 inclusive with 99% reliability of water supply would not exceed 820 mcm. Therefore, the New Agreement stipulates an annual water supply ceiling quantity of 820 mcm, which ensures that water supply to Hong Kong will not be affected even under extreme drought conditions with a return period of once in 100 years, whereas both sides have agreed to retain 1 100 mcm as the ultimate annual supply quantity in the New Agreement. In the event of the Hong Kong’s demand for water supply in excess of the ceiling quantity of 820 mcm, the relevant water supply arrangement and the additional price payable to the GD side will have to be negotiated separately.

Benefits of “Package Deal Deductible Sum”

7. Under the New Agreement, the previously adopted "package deal lump sum" approach is enhanced to become the "package deal deductible sum" approach in which water price will be deducted according to the actual amount of DJ water supplied. In essence, the continual adoption of package deal approach in the New Agreement can guarantee Hong Kong for a reliable and flexible supply of DJ water. In addition, the New Agreement incorporates a water price deduction mechanism under which the annual ceiling water price is deductible by a sum according to the actual amount of DJ water supplied for deriving the annual actual water price. Under the “package deal deductible sum” approach, we can avoid wastage of surplus DJ water resources and save pumping cost when more local yield is available in a particular year. We can also adjust the annual water price downward from the fixed annual ceiling water price by

deducting the difference between the annual supply ceiling and the actual amount of water supplied multiplied by a unit rate. This addresses the requests by the public for payment based on the quantity of DJ water supplied.

8. With the new water price deduction mechanism, to balance between addressing the fluctuation in water demand in Hong Kong and giving certainty on the scale of DJ water supply for stable operation, both sides have agreed to adopt an average annual DJ water supply quantity not less than 700 mcm during the nine-year period (i.e. 2021-2029) covering the New Agreement and the subsequent agreements. Accordingly, the maximum annual quantity of DJ water conserved will be 120 mcm on average. Using the deductible unit price of HKD 0.300 per cubic metre in 2021, the maximum average annual saving will be HKD 36 million and the maximum total saving will be HKD 324 million in nine years.

Arrangement of DJ Water Supply Agreements for the period from 2024 to 2029

9. As for the DJ water supply agreements for the period from 2024 to 2029, we will follow the established mechanism (issues such as the water price adjustment as mentioned in paragraph 3 above, the annual supply ceiling quantity as mentioned in paragraph 6 above, etc.) and commence negotiations with the GD side in due course to ensure that Hong Kong will continue to have a reliable and flexible supply of DJ water.

Development Bureau
Water Supplies Department
February 2021