立法會
Legislative Council

LC Paper No. CB(1)725/12-13
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Panel on Economic Development

Minutes of special meeting
held on Tuesday, 8 January 2013, at 4:30 pm
in Conference Room 3 of the Legislative Council Complex

Members present :
Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon CHUNG Kwok-pan (Deputy Chairman)
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Ronny TONG Ka-wah, SC
Dr Hon LEUNG Ka-lau
Hon Paul TSE Wai-chun, JP
Hon Albert CHAN Wai-yip
Hon Michael TIEN Puk-sun, BBS, JP
Hon James TIEN Pei-chun, GBS, JP
Hon Frankie YICK Chi-ming
Hon WU Chi-wai, MH
Hon YIU Si-wing
Hon Dennis KWOK
Hon Christopher CHEUNG Wah-fung, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon SIN Chung-kai, SBS, JP
Dr Hon Elizabeth QUAT, JP
Hon TANG Ka-piu

Member absent :
Hon CHAN Han-pan

Members attending:
Hon LEE Cheuk-yan
Hon Cyd HO Sau-lan
Dr Hon Priscilla LEUNG Mei-fun, JP
Hon LEUNG Kwok-hung

Public officers attending	**:**	Agenda Item I Mr WONG Kam-sing Secretary for the Environment Ms Christine LOH Under Secretary for the Environment Miss Vivian LAU Deputy Secretary for the Environment Ms Vyora YAU Principal Assistant Secretary for the Environment (Financial Monitoring)
Attendance by invitation	**:**	Agenda item I The Hongkong Electric Co., Ltd. Mr C T WAN Managing Director Mr CHAN Loi-shun Executive Director Mr T C YEE General Manager (Corporate Development) Mr K M WONG Group Manager, Finance & Accounting Ms Mimi YEUNG General Manager (Public Affairs) CLP Power Hong Kong Limited Mr Richard LANCASTER Managing Director Mr S H CHAN Director

Mr T K CHIANG
Planning & Development Director

Mr Edward CHIU
Commercial Director

Mr Stephen CHOI
Strategic Planner

Clerk in attendance : Mr Derek LO
Chief Council Secretary (1)5

Staff in attendance : Mr Noel SUNG
Senior Council Secretary (1)5

Ms Michelle NIEN
Legislative Assistant (1)5

Action

I Annual Tariff Reviews with the two power companies

(LC Paper No. CB(1)378/12-13(01)	—	Administration's response to follow-up questions arising from the meeting on 11 December 2012
File Ref: ENB CR 3/4576/05(12) Pt.15	—	Legislative Council Brief on CLP Power Hong Kong Limited and Castle Peak Power Company Limited – Gas supply infrastructure and gas supply agreement issued by the Environment Bureau
LC Paper No. CB(1)305/12-13(01)	—	Motion moved by Dr Hon Elizabeth QUAT at the meeting on 11 December 2012
LC Paper No. CB(1)260/12-13(08)	—	Presentation materials provided by The Hongkong Electric Company Ltd.
LC Paper No. CB(1)260/12-13(09)	—	Presentation materials provided by CLP Power Hong Kong Ltd.

LC Paper No. CB(1)294/12-13(01) — Information from Power Companies on Five-year Development Plans and Annual Tariff Reviews –Elaboration on the Notes on Confidential Information

LC Paper No. CB(1) 297/12-13(01) — Information provided by The Hongkong Electric Company Ltd. to the Panel on Economic Development

LC Paper No. CB(1) 297/12-13(02) — Information paper: CLP Power's 2013 Tariff Review

LC Paper No. CB(1)260/12-13(10) — Paper on annual tariff reviews with the two power companies prepared by the Legislative Council Secretariat (background brief))

The Chairman said that as requested by members, the meeting was convened to further discuss the annual tariff reviews with the two power companies. The opportunity was also taken to discuss the Legislative Council (LegCo) Brief on the agreement for the supply of natural gas through China's Second West-East Natural Gas Pipeline (WEPII) (File Ref. ENB CR3/4576/05(12) Pt.15).

2. At the invitation of the Chairman, the Secretary for the Environment (SEN) briefed members on the arrangements for CLP Power Hong Kong Limited and Castle Peak Power Company Limited (collectively referred to as CLP) to offtake natural gas from WEPII to Black Point Power Station for electricity generation to make up for the fast depleting gas source off Hainan Island, by highlighting the salient points in the LegCo Brief issued on 21 December 2012.

Presentation by CLP

(LC Paper No. CB(1)401/12-13(01) tabled at the meeting and subsequently issued via e-mail on 9 January 2013)

3. With the aid of PowerPoint, Mr Edward CHIU, Commercial Director of CLP briefed members on the arrangements for supply of natural gas for electricity generation under the WEPII.

Impact of Second West-East Natural Gas Pipeline on tariff increase

4. Given the price differential between the natural gas supply from WEPII and Yacheng gas, and the cessation of the special rent and rates rebate by CLP at the end of 2013, Mr TANG Ka-piu expressed grave concern that electricity tariff of CLP would shoot up considerably in the coming years, especially when natural gas would constitute about 50% of the fuel mix for generation of electricity in 2015. Mr TANG enquired about the estimated rate of tariff increase for 2014. Mr LEE Cheuk-yan shared Mr TANG's concern and enquired about the amount of natural gas which would be supplied by WEPII and used by CLP in 2013 and in the following years, and the impact on electricity tariff.

5. The Deputy Secretary for the Environment (DSE) remarked that, taking into account only the offtake of the entire annual contract quantity of natural gas under WEPII, the Fuel Clause Charge was envisaged to increase by about 20 cents per kWh, but it was unlikely that the entire contract quantity of natural gas would be required by CLP in 2013 and 2014. Based on an assessment made in 2010, the two power companies would have to use 50% natural gas for generation of electricity in order to meet the more stringent emission requirements to be implemented in 2015 under the Air Pollution Control Ordinance (Cap. 311) (APCO). However, given the improvements made by the power companies on the emission control facilities relating to electricity generated by coal, the percentage of natural gas to be used for electricity generation could be reduced for the purpose of meeting the emission caps in 2015. The Government and the two power companies would consider the appropriate fuel mix for electricity generation. Mr Richard LANCASTER, Managing Director of CLP, supplemented that it would not be possible to estimate the amount of natural gas to be supplied by WEPII in 2013 and in the following years, as the new supply was progressively replacing the existing supply from Yacheng which was depleting over time. SEN added that given the volatility of fuel prices in the market, it would be very difficult, if not at all impossible, to estimate the impact of future fuel price on electricity tariff.

6. In response to Mr TANG Ka-piu's enquiry regarding CLP's expenditure on emission control facilities in recent years, Mr Richard LANCASTER of CLP remarked that CLP had spent about $9 billion to improve its emission control facilities in order to meet the emission caps for 2010 through to 2014 under APCO. Since the new emission caps which reduced emission by up to 60% under APCO would come into effect in 2015, more reliance on the use of natural gas would be required in order to comply with the new requirements.

7. Dr Fernando CHEUNG expressed concern that there would be a significant increase in electricity tariff in the coming years, in view of the higher price and reliance on the supply of natural gas from WEPII and the deficit in the Fuel Clause Recovery Account (FCA). Dr CHEUNG opined that the large increase in electricity tariff was a result of the Government allowing CLP to invest about $40 billion in its facilities and the Company insisting on attaining the maximum permitted return of 9.99%. Dr CHEUNG enquired about the estimated rate of increase in electricity tariff in the next five years, and the amount and price of the supply of natural gas from WEPII. Dr CHEUNG also enquired what measures would be taken by the Government to minimize the rate of tariff increase so as to alleviate the impact of high electricity tariff on the public, in particular the trades and industries.

8. SEN remarked that the agreement for supply of natural gas from Yacheng was concluded about twenty years ago and since the supply from Yacheng was depleting, a new source of supply of natural gas had to be obtained, and the price for the new supply was subject to the prevalent international market price. During the interim review of the Scheme of Control Agreements (SCAs) in 2013 and the long term review before 2016, the Government and the two power companies would review the overall arrangements of the electricity supply market, including the supply of various types of fuel and the fuel mix for generation of electricity. Mr Richard LANCASTER of CLP added that the rate of electricity tariff was determined based on various factors, e.g. the amount of electricity consumption, fuel costs, investments in the electricity facilities, etc. and it was difficult to predict the impact of the supply of natural gas on electricity tariff in the coming years. Mr LANCASTER said that CLP had already worked very hard to minimize the operating costs of the company, and the basic tariff in 2013 was lower than that in 1997.

9. Noting that the prices for natural gas from Yacheng and the current international market were US$6 and US$18 to US$20 per MMBtu respectively, Mr SIN Chung-kai was concerned about the rate of tariff increase in the coming years as a result of the change of the natural gas supplier. Mr SIN opined that given the low interest situation, the cost for raising capital for the power companies had reduced and there should be scope for reducing the permitted rate of return for the power companies. Mr SIN enquired about the costs for the construction of the Hong Kong Branch Line (HKBL) of WEPII. Mr SIN was also concerned how the Government could regulate the joint company formed by PetroChina Company Limited and CLP for developing, constructing, owning and operating the HKBL, which was outside the purview of the SCAs.

10. Mr Richard LANCASTER of CLP remarked that the WEPII was a national project in the Mainland and the total expenditure of the project was about RMB142 billion. The building cost of the HKBL, which was not yet completed, was about RMB4 billion to RMB4.5 billion. Mr Edward CHIU of CLP supplemented that the price of US$18 to US$20 per MMBtu for the supply of natural gas from WEPII had covered the costs of the construction of the HKBL, transportation and supply of natural gas. SEN added that the permitted rate of return for the two power companies was one of the areas to be reviewed during the interim review of the SCAs in 2013.

11. Mr LEE Cheuk-yan was concerned whether the costs for building the major infrastructure facilities relating to WEPII were shared among the users on an equitable basis.

12. Mr Richard LANCASTER of CLP remarked that WEPII would supply gas to many cities in China. Hong Kong was required to pay for the costs of the HKBL of about 20 km connecting to the main gas system in the Mainland, and the cost of the rest of the pipeline would be shared fairly across all gas users.

13. The Deputy Chairman enquired whether CLP had undertaken to consume at least a certain amount of natural gas from WEPII. Otherwise, consideration could be given to purchasing more electricity generated by nuclear energy.

14. Mr Richard LANCASTER of CLP responded that flexibility was provided in the agreement with WEPII regarding the amount of natural gas to be required by CLP. In order to meet the more stringent emission caps under the APCO in 2015, CLP would consider increasing the use of electricity generated by natural gas and nuclear energy.

2013 tariff increase

15. Dr Elizabeth QUAT opined that CLP was misleading the public in stating that the proposed average increase of electricity tariff for 2013 was 5.9%, as the tariff increases for customers who consumed about 2,600 and 3,400 units of electricity were about 11.3% and 26.3% respectively. Dr QUAT enquired why the proposed tariff increase of CLP was much higher than that of Hong Kong Electric Co. Ltd. (HEC).

16. Mr Richard LANCASTER of CLP remarked that a tariff increase was proposed by CLP for 2013 mainly due to the upsurge in fuel prices, which amounted to an increase of about 4.6 cents per kWh. In order to encourage customers to save energy, a special energy saving rebate of 7, 8 and 9 cents

per kWh was provided for customers using less than 400, 300 and 200 units of electricity respectively. A higher increase was proposed for customers consuming large amount of electricity. In comparison with HEC's tariffs, the net unit rate of tariff for CLP customers was lower than that of HEC.

17. Dr Elizabeth QUAT enquired what measures would be taken by the Government to control the increase in electricity tariff, in view of the rapid upsurge in fuel prices. Dr QUAT also enquired what additional measures would be taken to encourage saving of energy.

18. SEN remarked that the Government would aim to strike a balance between the reliable, safe and environmental-friendly supply of electricity and a reasonable tariff level. SEN pointed out that electricity tariff in Hong Kong was lower than that of other large cities such as Singapore. During the review of the SCAs, the Government would discuss with the two power companies on relevant issues including the fuel mix and further measures to encourage energy saving.

Information on tariff increase

19. Dr Priscilla LEUNG expressed concern that the power companies had declined to release certain information relating to tariff increases on the ground that the information was confidential or commercially sensitive. There were media reports that the remuneration of some CLP directors had increased by 250% and yet the lower rank staff of CLP did not receive a reasonable upward adjustment of their salaries. Dr LEUNG was of the view that CLP should enhance the transparency of its remuneration policy for directors and staff. Dr LEUNG opined that in proposing tariff increases, the power companies should publicize details of the internal cost control mechanism, their performance on social responsibility and the justifications for the increases.

20. Mr Richard LANCASTER of CLP remarked that CLP was well aware of the possible impact of any tariff increase on the public and had attempted its best to minimize the operation costs, which would only increase by about 2% in 2013. Mr LANCASTER pointed out that the remuneration for CLP directors and staff were determined based on performance and benchmarks in the market. It was also based on an important principle of "nobody sets their own pay" and the remuneration would be reviewed by an independent consultant.

Reducing electricity consumption

21. Mr WU Chi-wai opined that in order to encourage energy saving, the tariff structure of the power companies should be so designed as to provide more incentives for customers to save energy, instead of just providing a small amount of rebates to consumers consuming a low level of electricity. For instance, a discount on the tariff could be provided to customers who used less electricity in a particular period when compared with their previous electricity consumption. Consideration could also be given to providing incentives for property developers to construct buildings installed with renewable energy or energy saving facilities. Mr LEUNG Kwok-hung echoed Mr WU's views and said that customers using a large amount of electricity should be required to pay a higher rate of tariff.

22. SEN remarked that there was already a mechanism in the Government to encourage the use of renewable energy for buildings, e.g. a more favourable plot ratio would be granted to buildings installed with renewable energy facilities. Mr C T WAN of HEC supplemented that HEC had adopted the progressive tariff structure for more than 20 years to encourage energy saving, and would further refine the tariff structure. Mr WAN pointed out that based on the proposed tariff increase for 2013, the tariff for HEC customers in the lowest tariff blocks, covering about 44% of non-domestic customers and 18% domestic customers, would remain unchanged, or might even be reduced for those domestic customers if they consumed less electricity.

Balance of the Fuel Clause Recovery Account

23. Members noted that there would be a deficit of about $1 billion in the FCA of CLP by the end of 2013. Mr LEE Cheuk-yan enquired whether the amount of deficit would be recovered by increasing the tariffs for customers of CLP.

24. Mr Richard LANCASTER of CLP remarked that the balance of the FCA would be taken into account in reviewing the electricity tariff for 2014.

25. Mr Dennis KWOK enquired about the projected balance of the FCA after 2013, and the impact of the projected balance on the tariff level.

26. Mr Richard LANCASTER of CLP remarked that the international fuel market was extremely volatile and the fuel supply situation changed all the time. The balance of the FCA was estimated to be about $1 billion in deficit at the end of 2013. CLP would take into account, among other things, the actual balance of the FCA at the end of 2013 and the estimated cost for

the purchase of fuel in working out the proposed tariff adjustment for 2014.

Nuclear energy

27. Mr LEUNG Kwok-hung objected to the use of nuclear energy for generation of electricity. He opined that it was unethical that Hong Kong bought electricity generated by nuclear energy at a relatively low price whilst people living near the nuclear plants in the Mainland or a neighbouring country had to face the risk of a nuclear incident. Mr LEUNG was of the view that the Government and the power companies had the obligation to provide a reliable, safe and environmental-friendly supply of electricity at a price affordable by the public. Mr LEE Cheuk-yan echoed Mr LEUNG's view. He was concerned that any nuclear incident would be catastrophic.

28. The Chairman said that public safety was of paramount importance as far as the supply of electricity was concerned. The provision of electricity generated by green energy at a reasonable price was necessary. The Chairman enquired about the progress in the review of the use of nuclear energy for electricity generation, which had been held in abeyance after the Fukushima nuclear incident in Japan in 2011. He said that it was essential to gauge the views of the public on the future development of the electricity supply market and the relevant regulatory framework.

29. Mr SIN Chung-kai said that Members belonging to the Democratic Party objected to any increase in the use of nuclear energy for generation of electricity. He opined that given the potential risk in using nuclear energy, the study on the wider use of nuclear energy should be discontinued. He opined that after the expiry of the existing agreement for supply of nuclear electricity from the Mainland, the use of such electricity should be reduced.

30. SEN remarked that during the interim and long term review of the SCAs, the Government would gauge the views of the public regarding the fuel mix for electricity generation, the stable supply and the safety of different types of fuel, and the impact of the fuel prices on electricity tariff. The Government would adopt an open stance when consulting the public on the relevant issues. Mr C T WAN of HEC remarked that currently HEC did not use any electricity generated by nuclear energy. Mr WAN stressed that a clear policy on the fuel mix was imperative for the electricity supply market. Mr Richard LANCASTER of CLP said that about one-third of the electricity supplied by CLP was imported from the Daya Bay nuclear power station in the Mainland since 1994. In the event that more electricity generated by nuclear energy was required, new transmission lines had to be built to transmit the electricity from a new nuclear power station to be identified in the Mainland to Hong Kong, and the lead time for building such new

infrastructure was about eight to ten years.

Interim review of SCAs

31. Mr LEE Cheuk-yan was concerned as to how the Government could take measures to address members' concerns, given that any modification to the SCAs during the interim review in 2013 would be subject to the agreement of both parties.

32. SEN responded that during the interim review of the SCAs, the Government would discuss with the two power companies on all issues relating to the electricity supply market and regulatory framework, in particular the issues on the supply of electricity at a reasonable price and in an environmental-friendly manner. The permitted rate of return for the power companies would also be one of the areas for review. Both parties would discuss the issues based on the actual market situation and objective criteria. Any modifications to the SCAs would be based on valid justifications.

Public consultation

33. Mr Michael TIEN remarked that the 5.9% tariff increase proposed by CLP was mainly due to the higher price in the supply of natural gas from WEPII. Mr TIEN pointed out that in order to comply with the more stringent emission caps to be implemented in 2015 under the APCO, CLP had to increase the use of natural gas from about 20% of the fuel mix to about 45% in 2015, while the price of natural gas supplied by WEPII was about three-fold of that from Yacheng. As a result, electricity tariff would probably be increased by about 40% in 2015. Mr TIEN remarked that unless the Government was prepared to subsidize the public on electricity tariff, or CLP increased the use of electricity generated by nuclear energy, the public would have to pay an extremely high electricity tariff in future. Mr TIEN opined that the Government should conduct a public consultation forthwith to gauge the public's views regarding the increased tariff and the suitable fuel mix for generation of electricity, having regard to the need to improve the air quality of Hong Kong.

34. SEN responded that during the several rounds of public consultation since 2009 regarding the improvement of air quality, the attention of the public had been drawn to the possible increase in electricity tariff if greener energy was used for generation of electricity. The Government would gauge the views of the public on the issue again when it reviewed the SCAs with the power companies in 2013.

35. Ms Cyd HO remarked that in consulting the public on the overall electricity supply regulatory framework, the Government and the power companies should provide comprehensive information on all aspects of the issue, including the pros and cons for using different types of fuel for generation of electricity and the respective impacts on the tariff levels, the safety aspect of using nuclear energy, the permitted rate of return for power companies and whether public money should be used to offset part of the tariff. Ms HO opined that the use of nuclear energy might not necessarily result in lower tariff. Mr LEUNG Kwok-hung shared Ms HO's concern and remarked that in order to enable the public to have a meaningful discussion on the regulatory framework for the electricity supply market, the power companies should not withhold information relating to the costs for supply of electricity, e.g. the costs for raising capital and the expenditure on the remuneration of their directors and staff, on the guise that the information was sensitive commercial information.

36. The Under Secretary for the Environment (USEN) responded that a public consultation would be conducted during which the Government would present to the public information relating to the regulation of the electricity market. The Government was prepared to listen to the views of all concerned parties in the review of the electricity regulatory framework.

II Any other business

37. There being no other business, the meeting was adjourned at 6:20 pm.

Council Business Division 1
Legislative Council Secretariat
22 March 2013