

ITEM FOR FINANCE COMMITTEE

**HEAD 147 – GOVERNMENT SECRETARIAT :
FINANCIAL SERVICES AND THE TREASURY BUREAU
(THE TREASURY BRANCH)**

New Subhead “General non-recurrent”

New Item “Electricity charges subsidy for eligible residential accounts”

Members are invited to approve a new commitment of \$4,400 million for providing electricity charges subsidy for eligible residential households over a period of three years.

PROBLEM

The Government is concerned about the impact of rising inflation on the livelihood of citizens. We need to help ease inflationary pressure through relief measures to reduce the burden on domestic households, particularly those low-income families.

PROPOSAL

2. We propose to grant each residential electricity account¹ a maximum subsidy of \$1,800 to cover the billed electricity charges of eligible households over a maximum period of three years.

/JUSTIFICATION

¹ By “residential electricity accounts”, we are referring to accounts where domestic tariff applies. In determining the applicable tariff, the electricity companies will consider the nature of occupancy. The companies will process the opening and termination of accounts as well as other account related matters in accordance with their established mechanism.

JUSTIFICATION

3. To ease the pressure of inflation on households, the Financial Secretary has proposed in the 2008-09 Budget to grant each residential electricity account a subsidy of \$1,800. At present, about 15% of households in Hong Kong pay an average of not more than \$150 a month for electricity charges. The subsidy will enable these households to cover their electricity charges for about one year. As for another 20% of households paying an average of \$150 to \$300 a month for electricity charges, the subsidy is enough to pay their electricity bills for about six months. We believe this measure will most benefit lower income households.

4. We propose to inject the subsidy of \$1,800 into eligible residential electricity accounts in six phases. Specifically, we will credit \$300 to each residential account with CLP Hong Kong Ltd or Hongkong Electric Ltd in existence on the first day² of each month for six consecutive months, tentatively starting from 1 September 2008. The credit can only be used for the purpose of offsetting billed charges for electricity consumed under the same account and will reduce the amount demanded in the electricity bills issued by the electricity companies to residential customers.

5. We also propose that any unused credit in a month can be carried forward to cover billed electricity charges under the same account for two and a half years after the last credit month³ or until the close of account, whichever is earlier. This will effectively provide for the use of the \$1,800 subsidy over a maximum of three years (or \$50 per month on average). As at present about 95% of domestic households pay electricity charges of \$50 or above a month, we expect that these households will be able to fully utilise the subsidy within the three-year period. The remaining 5% are mainly accounts for premises being left vacant or not used as primary residence.

FINANCIAL IMPLICATIONS

6. Based on the some 2.44 million residential electricity accounts registered with the two electricity companies as at 1 April 2008, we estimate that the total subsidy involved will be \$4,400 million (including a contingency to cater

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² Where a change of account holder occurs on the first day of the month, the customer taking up the account will be entitled to the credit. In respect of any one meter, only one account will be eligible for the subsidy in a month.

³ If the subsidy scheme commences on 1 September 2008, the \$1,800 subsidy can be used to cover charges billed on or before 31 August 2011.

for possible increase in the number of eligible accounts). As the Government will pay the electricity companies as and when the billed charges become due, the payment of the estimated \$4,400 million to the companies will be spread over the three-year period. The estimated cash flow of the proposal is as follows –

Financial year	\$ million
2008-09	3,915
2009-10	385
2010-11	84
2011-12	16
Total	4,400

The exact requirements and annual cash flow will be dependent on factors including the number of eligible accounts and their respective electricity consumption level. Subject to Members' approval of the proposal, we will offset the supplementary provision required for implementing the proposal in 2008-09 by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 789 Additional commitments. We will include sufficient funds in the Estimates of subsequent financial years for meeting the cash flow required.

7. As considerable public money is involved, we will set out in proper documentation the operating parameters of the subsidy scheme and the obligation of parties involved for compliance by the electricity companies. As part of the control mechanism, the companies will be required to provide the Government with monthly reports on the number of accounts eligible for the credit, the amount of subsidy used in the month and the amount of unused subsidy carried forward. They will also be required to provide the Government with confirmation from external auditors that the Government has been charged according to the terms of the scheme.

PUBLIC CONSULTATION

8. We consulted the Legislative Council Panel on Financial Affairs on 5 May 2008. Members were in general supportive of the proposal.

/BACKGROUND

BACKGROUND

9. In the 2008-09 Budget, the Financial Secretary has proposed to grant each residential electricity account a subsidy of \$1,800 to ease inflationary pressure.

Financial Services and the Treasury Bureau
May 2008