

For information
on 23 June 2008

Legislative Council

House Committee Subcommittee on the Sewage Services (Trade Effluent Surcharge) (Amendment) Regulation 2008

Follow-up action arising from the discussions at the meeting on 19 June 2008

Purpose

Members of the Subcommittee on the Sewage Services (Trade Effluent Surcharge) (Amendment) Regulation 2008 requested the Administration to provide information on the recovery rate of the operating cost attributable to the trade effluent surcharge (TES) scheme. This paper seeks to provide the information requested.

Policy objective of the TES scheme

2. As set out in the Administration's submission to the Legislative Council (LegCo) Panel on Environmental Affairs (EA Panel) on 18 March 2008, the policy goal "for the TES scheme is to achieve full recovery of the attributable operating costs. The most recent estimate (based on currently prescribed COD values and TES rates) is that we are recovering only about 84% of the operating cost".

Purpose of the current exercise

3. As set out in the LegCo brief on 9 May 2008 introducing the Sewage Service (Trade Effluent Surcharge) (Amendment) Regulation 2008 (Amendment Regulation), the purpose of the exercise is to revise the chemical oxygen demand (COD) values and the TES rates in accordance with –

- (a) the results of the effluent survey; and
- (b) with a view to achieving 100% operating cost recovery (i.e. excluding depreciation) for the TES by 2009-10.

Cost apportionment between sewage charge and the TES

4. Based on the estimated pollution load, the operating cost of the sewage services has been apportioned to sewage charge (SC) and the TES under the Sewage Services Charging Scheme according to a ratio of about 78:22. As explained in the LegCo Brief in May 2008, in accordance with the revised pollution loads of the two sectors as a result of the proposed new COD values of the TES trades, the allocation ratio will be adjusted to about 85:15.

Control of sewage service cost

5. As noted in the Administration's submission to LegCo EA Panel on 18 March 2008, we have been very conscious of the need to control the operating costs of the sewage services and have adopted various measures to improve efficiency. Over the past five years, the total expenditure has declined by 4% and unit treatment cost by 10% despite of the fact that the volume of sewage treated has increased by 6% and the number of sewage treatment works and pumping stations by 27%.

Cost recovery rate

6. We set out below the revenue, apportioned expenditure and cost recovery rate of the TES after the Sewage Services Trading Fund was closed and the sewage service was reverted back to the Government on 31 March 1998. It should be noted that capital cost and depreciation of the sewage facilities are not included in the expenditure and the calculation of the recovery rate.

Year	Trade Effluent Surcharge		
	Revenue (\$M)	Apportioned expenditure (\$M)	Recovery rate
2007-08	222	266	83.7%
2006-07	210	253	83.1%
2005-06	209	251	83.3%
2004-05	209	253	82.7%
2003-04	173	250	69.1%
2002-03	170	254	66.8%
2001-02	227	228 ^{Note 1}	99.3%
2000-01	240	209 ^{Note 1}	114.6%
1999-00	235	215 ^{Note 1}	109.4%
1998-99	241	191 ^{Note 1}	126.4%

Note 1: Expenditures in these years were lower than originally anticipated due to the delay in the full commissioning of the Harbour Area Treatment Scheme (HATS) Stage I. HATS Stage I, which was planned for commissioning in 1997, was commissioned fully in 2001.

**Environmental Protection Department
Drainage Services Department
20 June 2008**