

**For discussion  
on 5 May 2008**

## **Legislative Council Panel on Financial Affairs**

### **Electricity Charge Subsidy**

#### **PURPOSE**

This paper seeks Members' support on the Administration's proposal to provide a subsidy of \$1,800 to each residential electricity account.

#### **PROPOSAL**

2. We propose to grant each residential electricity account<sup>1</sup> a maximum subsidy of \$1,800 in six phases. The details of the proposed subsidy are as follows:

| <b>Item</b>                 | <b>Details</b>   |
|-----------------------------|--|
| Purpose of the subsidy      | The subsidy should be used for the sole purpose of paying electricity charges under eligible accounts of the respective electricity companies.   |
| Eligibility criteria        | Residential accounts in existence with CLP Power Hong Kong Ltd (CLP) and Hongkong Electric Ltd (HEC) on the respective dates of credit <sup>2</sup> .  |
| Dates of credit             | First day of each month for six consecutive months, tentatively starting from 1 September 2008   |
| Subsidy on each credit date | \$300  |
| Unused subsidy              | Any unused subsidy in a month can be carried forward for paying billed electricity charges under the same account for two and a half years after the last credit month (i.e. charges billed on or before 31 August 2011 if starting from 1 September 2008) or the close of the account whichever is earlier. |

The subsidy will reduce the amount demanded in the electricity bills. An example is at the enclosure.

<sup>1</sup> This means, for customers of CLP, accounts where residential tariff applies and, for customers of HEC, accounts where domestic tariff applies. In determining the applicable tariff, the electricity companies 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.

<sup>2</sup> Where a change of account holder occurs on the 1st 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.

## **JUSTIFICATIONS**

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 some 20% of households paying an average of \$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. It is proposed that the subsidy can be available for use under the same account for a total of three years so that users will have sufficient time to fully utilize the subsidy. There is therefore no need for users to increase their normal electricity consumption in order to use up the subsidy within the six months. We expect that over 95% of the domestic users will have fully utilised the subsidy within the period. For the remainder, the majority are accounts related to premises vacant or not used as primary residence.

## **FINANCIAL IMPLICATIONS**

5. The electricity companies advise that there are some 2.44 million residential electricity accounts as at 1 April 2008. A provision of \$4.4 billion will be sought.

## **CONTROL MECHANISM**

6. The electricity companies will 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 provide the Government with confirmation from their external auditors that Government has been charged according to the terms of the scheme.

## **WAY FORWARD**

7. Subject to Members' views, we will submit the proposal to the Finance Committee for funding approval as soon as practicable.

Example

- Government subsidy of \$300 is credited on the first day of each month from September 2008 to February 2009.
- Mr A will be billed \$350 and \$250 in September and October 2008 respectively if there is no government subsidy.
- His electricity bills will indicate the following :

|                                    |            |
|------------------------------------|------------|
| <u>Bill for September</u>          | \$         |
| Charge for electricity consumed    | 350        |
| Government subsidy credited        | <u>300</u> |
| Amount due                         | <u>50</u>  |
| Government subsidy carried forward | 0          |

|                                    |            |
|------------------------------------|------------|
| <u>Bill for October</u>            | \$         |
| Charge for electricity consumed    | 250        |
| Government subsidy credited        | <u>300</u> |
| Amount due                         | <u>0</u>   |
| Government subsidy carried forward | 50         |