

Legislative Council Panel on Housing

**Supply and Cost of Liquefied Petroleum Gas
in Public Housing Estates**

PURPOSE

This paper briefs members on the Housing Authority's (HA) policy and monitoring issues concerning the provision of central Liquefied Petroleum Gas (LPG) in public housing estates.

BACKGROUND

2. The HA adopts the policy that Towngas would be provided for public housing estates wherever available. Nonetheless, the HA would engage central LPG suppliers for public housing estates in remote locations or estates developed years ago when there was no coverage of Towngas at the time of construction of the estates concerned. Under HA's management, there are now 15 public housing estates¹ installed with central LPG supply system.

3. There are currently five companies providing domestic LPG supply services in Hong Kong, namely Shell Hong Kong Limited, ExxonMobil Hong Kong Limited, Chevron Hong Kong Limited, Sinopec Hong Kong Limited and Concord Oil Hong Kong Limited. The first three companies have been providing central LPG supply to the aforesaid 15 public housing estates.

4. Fuel prices in Hong Kong are determined by individual companies having regard to commercial practices and their operating costs. In a free market economy, the Government has no power to mandate the level of fuel prices. Regarding the domestic LPG, Shell Hong Kong Limited (Shell), one of the major LPG suppliers in Hong Kong, has voluntarily adopted a pricing mechanism since 1999 to review their prices regularly so as to enhance transparency in their pricing. To reflect more closely LPG price movements in the international market, Shell currently reviews their prices every three months (i.e. in the latter half of January, April, July and October), and reviews their operational costs every twelve months.

5. In each review with a view to setting LPG price, the company will forecast the import prices of the coming three months in light of the latest international LPG price information, and reflect any variation between the

¹ They are Butterfly, Choi Yuen, Kam Peng, Kwong Fuk, Lung Tin, Ngan Wan, Oi Man, On Ting, Sam Shing, Shui Pin Wai, Tai Yuen, Wah Fu (II), Wu King and Yau Oi Estates and Nga Ning Court.

actual import prices and the import prices as forecasted in the previous review. Under this mechanism, the Environment Bureau (ENB) also monitors whether the adjustment in local price of domestic LPG is reasonable in light of the movements in international LPG prices and local import prices. After each price review, Shell will announce and explain to the public the outcome of the review. Although other oil companies have not established any mechanism to regularly and openly review LPG price and release relevant information, according to ENB's information, the adjustment made by other oil companies in the price of piped LPG has been close to that of Shell.

MONITORING AND CONTROL OF LPG SUPPLIERS

6. All suppliers providing services to public housing estates are required to enter into LPG supply contracts with the HA for building and maintaining the LPG compound as well as supplying and distributing LPG to users. In return, the HA receives premiums² from the LPG suppliers as part of the income of the HA to meet the cost arisen from performing its statutory duties. Under the LPG supply contracts, the suppliers could not restrict users in public housing estates to use the piped central LPG supply. Instead, other forms of fuels such as portable bottled LPG from any source may be used as the users see fit. Besides, the LPG supply contracts also stipulate that the suppliers shall not levy any charge higher than that in the prevailing private market.

RECENT CONCERNS

7. In light of the recent concerns³ on the cost, monitoring and the mode of operation of the provision of LPG in public housing estates, the ensuing paragraphs describe main issues raised and explain the Administration's positions –

Price of LPG

8. The main concern is whether the LPG suppliers have been charging a price higher than the import price. There are other concerns that if there is any such situation, whether it would be induced by the LPG supply contracts which require premium payments to the HA and the LPG suppliers to maintain

² Except for Nga Ning Court in Cheung Chau in which the HA has been paying the LPG supplier for providing LPG as LPG suppliers have limited commercial interest in serving the estate concerned due to the latter's remote location.

³ A Mutual Aid Committee in Oi Man Estate (OME) recently launched several complaints regarding the cost of LPG in OME, which was perceived to be much higher than the import price. The complaints have given rise to suggestions from the public on the possible means, such as by changing the existing mode of operation, to deal with such situation.

the LPG facilities in the estates. We need to point out that the LPG supply contracts require that the LPG price be capped at the prevailing private market level, which is also the price paid by other LPG users, including those living or operating in private properties. In fact, the price charged to the users of piped central LPG in the 13 public housing estates (except for Lung Tin Estate on Lantau Island and Nga Ning Court on Cheung Chau⁴) in the past 3 years has been identical to the price promulgated by Shell as mentioned in paragraphs 4 and 5. Besides, as the LPG suppliers have to maintain the LPG facilities which serve the relevant users no matter in private or public housing estates, we do not consider that including the terms of paying the premium and maintaining the LPG facilities in the LPG supplier contracts would increase the LPG price paid by the users in public housing estates.

Regular re-tendering of LPG

9. With a view to encouraging competition and better service, there have been suggestions that regular re-tendering of LPG supply contracts should be conducted. Indeed, the HA has implemented a comprehensive mechanism, in which the Building Services Engineer of the district would monitor the performance of LPG suppliers, such as the adequacy of labour and supervision, co-operation of management etc, every 6 months. The pricing information will also be reviewed every 6 months to ensure the prices charged to users in public housing estates are similar to the market price. The monitoring mechanism has been effective so far. Subject to satisfactory performance, the LPG supply contracts would be renewed by another 10 years when existing contracts expire. We therefore consider that it would be more effective to continue with the existing monitoring mechanism to ensure the LPG suppliers are delivering the requisite level of service to the users in public housing estates.

Conversion to Towngas

10. It has also been suggested that considerations should be made to providing Towngas to public housing estates currently served by LPG suppliers instead. However, the conversion would be very costly and technically complicated. LPG and Towngas have different physical properties and require different conditions for operation. LPG distribution networks and household gas appliances (such as water heaters and cooking stoves) would need to be replaced as they are incompatible with Towngas.

11. Under the existing contract terms with LPG companies, the installation of Towngas distribution network could only commence after the expiry of the existing LPG supply contracts. Complete demolition of the

⁴ Due to geographical constraint, the transportation cost is higher for these two public housing estates. As a result, the price charged by the LPG supplier is about 6% higher than that promulgated by Shell.

entire LPG plants and piping systems and extensive works (such as extensive excavation work in open areas, scaffolding erected at the façade of the buildings, piping and metering installation works inside domestic flats etc.) would be required within the estate and inside all domestic flats. It is estimated that such works would take about 12 months, during which piped gas supply would be suspended. Having regard to the above, we consider that the conversion of existing supply from LPG to Towngas would create tremendous disturbance and incur costs to the users in public housing estates concerned and hence not desirable.

12. Besides, due to space constraint in the public housing estates and safety considerations, a mixed mode of gas supply, i.e. provision of both LPG and Towngas in the same estate, is physically infeasible.

THE WAY FORWARD

13. The HA has been cautious of the need to safeguard the interest of public housing occupants. The HA will continue to monitor closely the performance of the LPG suppliers. Furthermore, to keep the public rental housing residents well aware of the price level of the LPG, the Housing Department will examine ways to strengthen communication with the suppliers and keep the tenants better informed of the movement of the LPG price.

Transport and Housing Bureau
May 2009