

For information on
23 March 2010

**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

Tariff Adjustment of the Hong Kong and China Gas Company Ltd

PURPOSE

This paper briefs Members on the plan of the Hong Kong and China Gas Company Ltd (Towngas) to raise basic tariff by 0.6 cents per MJ with effect from 1 April 2010.

TARIFF ADJUSTMENT

2. Towngas has been investing in its infrastructure to provide gas supply to newly-developed areas and to maintain safe and reliable services. Total capital expenditure invested during 2005 to 2009 was \$4.4 billion whilst planned investment for the coming five years is projected to be \$4.9 billion. In addition, Towngas explained that its staff and other operating costs have risen in accordance with the cumulative inflation in Hong Kong. Although the Company has, over the years, introduced a range of cost saving measures, Towngas said that such initiatives could no longer offset additional costs and a tariff adjustment is now necessary.

3. Towngas will raise its basic tariff by 0.6 cents per MJ effective from 1 April 2010. The increase is equivalent to 2.8% of the basic tariff; or 2.6% of the effective tariff in 2009. The Company estimates that over 90% of its residential customers would pay less than \$8.5 extra for their gas supply each month. Towngas will maintain its Monthly Maintenance Charge unchanged.

4. Concession schemes will continue to be in place by Towngas for 80,000 elderly, people with disabilities and single parent families. The first 500MJ per month of town gas consumption of these groups get a 50% discount. Monthly Maintenance Charge and spare part costs are waived. Towngas will also waive the basic tariff adjustment for these customers.

5. There is a wide spectrum of both gas and electricity appliances for cooking and water-heating available in the market, creating a competitive energy market environment of which Towngas operates in.

6. Towngas introduced natural gas as part of the feedstock to produce town gas in October 2006. Since then fuel savings amounting to \$3.7 billion have been passed on to customers. Despite the increase in international crude oil prices in recent years, the effective town gas price in 2009 was 18% lower than that in September 2006, just before the introduction of natural gas. Productivity, measured by customer to employee ratio, also increased in the last 5 years (2005-2009) at an annual growth rate of 2%.

BACKGROUND

Information and Consultation Agreement

7. Towngas is currently not subject to any price or profit regulation by the Government. The Company has nevertheless entered voluntarily into an Information and Consultation Agreement (ICA) with the Government since 1997. The objective of the ICA is to increase transparency in Towngas' tariff setting mechanism, and to provide justification thereof, in the event of tariff adjustments. Pursuant to the ICA, Towngas needs to consult the Government three months in advance and upon request, brief the Legislative Council Panel on Economic Development and the Energy Advisory Committee on tariff adjustments.

8. Towngas last raised its basic tariff modestly by 1.4% in 2008 after maintaining a tariff freeze for ten years. The proposed increase is the second increase in the twelve years.

ADVICE SOUGHT

9. Members are requested to note the content of this paper.

Environment Bureau
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