

**For discussion
on 5 May 2011**

**Legislative Council Panel on Financial Affairs
Electricity Charges Subsidy**

PURPOSE

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

PROPOSAL

2. We propose to grant each residential electricity account¹ a maximum additional subsidy of \$1,800 to cover billed electricity charges of eligible households up to 31 August 2014 or the close of the account, whichever is earlier.

JUSTIFICATION

3. To ease the pressure of inflation on households, the Financial Secretary proposed in the 2011-12 Budget to grant each residential electricity account a subsidy of \$1,800. At present, about 20% 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 at least one year. The measure will most benefit lower income households.

¹ A "residential electricity account" refers to an account to which 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 mechanisms.

4. We propose to inject the subsidy of \$1,800 into eligible residential electricity accounts in twelve equal installments. Specifically, we will credit \$150 to each residential account with CLP Power Hong Kong Ltd. or Hongkong Electric Co., Ltd. in existence on the first day² of each month for twelve consecutive months, tentatively starting from 1 July 2011. 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. In 2008, a commitment of \$8,800 million was created to provide electricity charges subsidy to eligible residential households (the 2008 scheme). As at 31 March 2011, about 2.2 million residential electricity accounts, or 90% of the total, used up their credits under the 2008 Scheme, while some 250,000 accounts still had unused credits amounting to \$380 million. We expect most accounts will use up the credits except for a small minority of cases including accounts of properties not used for primary residence.

6. Similar to the 2008 scheme, we propose that under the proposed new scheme, any unused credit in a month can be carried forward to cover billed electricity charges under the same account until 31 August 2014 or the close of account³, whichever is earlier. We expect that most households will fully utilize the subsidy by August 2014.

7. There have been suggestions for the proposed subsidy to be tied to electricity consumption with a view to encouraging reduction in electricity consumption. We have considered this option but concluded that it is not feasible,

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 At present, public rental housing (PRH) tenants of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS) who are required by HA/HS to move to other PRH units due to redevelopment and major repairs/improvement works are granted supplementary electricity charges subsidy equivalent to the amount of subsidy lapsed on the close of their old electricity accounts. This is provided for under a separate commitment created under delegated authority. With the provision of the additional subsidy, we plan to continue with this arrangement and expect that the total supplementary subsidy required will increase from \$7.5 million to \$9 million.

mainly because electricity consumption varies with multiple factors, many of which are unrelated to whether a household is environmentally conscious (e.g. changes in household size).

FINANCIAL IMPLICATIONS

8. As at 1 April 2011, the two electricity companies maintained a total of some 2.5 million residential electricity accounts. We therefore estimate the subsidy involved will be around \$4,500 million. Accordingly, we propose to increase the existing commitment of Item 881 Electricity charges subsidy for eligible residential accounts under Head 147 Government Secretariat : Financial Services and the Treasury Bureau (The Treasury Branch) Subhead 700 General non-recurrent from \$8,800 million by \$4,500 million to \$13,300 million.

9. As the Government will pay the electricity companies as and when the billed charges become due, the payment to the companies will spread over the years. The estimated cash flow of the proposed commitment is as follows-

| Financial year | \$ million |
|------------------------------|-------------------|
| Amount spent up to 31.3.2011 | 8,170 |
| 2011-12 | 3,100 |
| 2012-13 | 1,800 |
| 2013-14 | 180 |
| 2014-15 | 50 |
| Total | 13,300 |

The exact cash flow and final requirement will depend on factors including the number of eligible accounts and their electricity consumption.

CONTROL MECHANISM

10. As with the 2008 scheme, we will set out in proper documentation the operating parameters of the additional subsidy and the obligation of parties involved for compliance by the electricity companies. As part of the control mechanism, the companies will continue to 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.

BACKGROUND

11. The Financial Committee (FC) approved on 23 May 2008 a commitment of \$4,400 million for providing each residential electricity account a subsidy of \$1,800 vide FCR(2008-09)18. FC subsequently approved on 18 July 2008 vide FCR(2008-09) 41 to increase the subsidy to \$3,600 and to increase the commitment for the purpose by \$4,400 million to \$8,800 million. As at 31 March 2011, the commitment had an unspent balance of \$630 million.

12. In 2011-12 Budget, the Financial Secretary proposed to grant each residential electricity account a subsidy of \$1,800 to ease inflationary pressure.

WAY FORWARD

13. Subject to Members' views we will seek funding approval from FC so as to implement the proposal as soon as practicable.
