

**For discussion
on 6 May 2013**

Legislative Council Panel on Financial Affairs

Electricity Charges Subsidy

PURPOSE

The Administration has proposed to set aside \$4,500 million to provide an additional subsidy of \$1,800 to each of the 2.5 million residential electricity accounts. This note sets out the key features of the initiative.

PROPOSAL

2. We propose to grant each residential electricity account¹ a maximum additional subsidy of \$1,800. We further propose that this subsidy and the existing subsidies can be used to cover billed electricity charges of eligible households up to 30 June 2016 or the close of the account, whichever is earlier.

JUSTIFICATION

3. Having regard to the uncertain external economic outlook and the continued risk of rising inflation, the Financial Secretary proposed a range of one-off stimulus measures, including granting 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 cover their electricity charges for at least one year. The lower income households will benefit most from the measure.

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 each eligible residential electricity account in twelve instalments. Specifically, we will credit \$150 to each residential account with CLP Power Hong Kong Ltd. or The Hongkong Electric Co., Ltd. in existence on the first day² of each month for twelve consecutive months, starting tentatively from 1 July 2013. The credit can only be used for the purpose of offsetting billed charges for electricity consumed under the same account.

5. In 2008, a commitment of \$8,800 million was created to provide electricity charges subsidy to eligible residential households (the 2008 scheme). In 2011 and 2012, the Government provided two further rounds of electricity charges subsidy scheme (the 2011 and 2012 schemes) thereby increasing the commitment to \$17,800 million. Under the 2012 scheme, all eligible residential electricity accounts are receiving a monthly subsidy of \$150 until June 2013.

6. As with the 2008, 2011 and 2012 schemes, we propose under the new scheme to allow unused credit in a month to be carried forward to cover billed electricity charges under the same account. Under the 2008, 2011 and 2012 schemes, the expiry date is set at 30 June 2015. With the proposed scheme, we propose to extend the expiry date so that the new subsidy and those subsidies credited under the 2008, 2011 and 2012 schemes can be used to cover billed electricity charges up to 30 June 2016 or the close of account³, whichever is earlier. This will allow the subsidy under the new scheme to be valid for three years from the first credit.

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 further provision of additional subsidy, we plan to continue with this arrangement. Taking into account the redevelopment programmes currently conducted by HA/HS, we expect that the total supplementary subsidy required will be around \$9 million.

7. There have been suggestions that the proposed subsidy should be tied to electricity consumption⁴ with a view to encouraging reduction in electricity consumption. We have considered this option but concluded that it is not feasible, mainly because electricity consumption varies with multiple factors⁵, many of which are unrelated to the environmental awareness of households (e.g. changes in household size).

FINANCIAL IMPLICATIONS

8. As at 1 April 2013, the two electricity companies maintained some 2.5 million residential electricity accounts. We therefore estimate that 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 by \$4,500 million from \$17,800 million to \$22,300 million. A summary analysis of the total commitment for this measure as from 2008-09 is as follows:

<u>Scheme</u>	<u>Non-recurrent commitment</u>	<u>Expiry date</u>
2008	\$8,800m	31 August 2014
Up to 2011	\$13,300m (+\$4,500m)	31 August 2014
Up to 2012	\$17,800m (+\$4,500m)	30 June 2015
Up to 2013	\$22,300m (+\$4,500m)	30 June 2016

⁴ Based on the total domestic electricity consumption published in the Hong Kong Monthly Digest of Statistics and the number of residential accounts at year end, the average electricity consumption per account since 2005 is as follows:

	Total consumption (GWh)	Number of residential accounts at year end (million)	Average consumption per account (kWh)
2005	9 900	2.36	4 220
2006	9 800	2.39	4 120
2007	10 100	2.41	4 200
2008	10 300	2.44	4 220
2009	10 800	2.47	4 380
2010	10 900	2.50	4 380
2011	11 100	2.52	4 390
2012	11 400	2.54	4 500

⁵ One possible factor may be temperature. For instance, the average electricity consumption per residential account in both July 2011 and July 2012 when the electricity charges subsidy was in place was some 23% lower than that in July 2007 when no subsidy was given. It may be relevant that both the average temperature in July 2011 and July 2012 were 0.8 degree Celsius lower than that in July 2007.

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 31.3.2013	15,240
2013-14	4,480
2014-15	1,980
2015-16	450
2016-17	150
Total	22,300

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

CONTROL MECHANISM

10. As with the 2008, 2011 and 2012 schemes, 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 Finance Committee (FC) approved on 23 May 2008 a commitment of \$4,400 million for providing each residential electricity account with a subsidy of \$1,800 vide FCR(2008-09)18. FC subsequently agreed on 18 July 2008 vide FCR(2008-09)41 to increase the subsidy to \$3,600 and to raise the commitment to \$8,800 million. On 10 June 2011 and 1 June 2012, FC agreed vide FCR(2011-12)21 and FCR(2012-13)30 to further provide each residential electricity account with a

subsidy of \$3,600 in total and to increase the commitment to \$17,800 million. As at 31 March 2013, the commitment had an unspent balance of about \$2,560 million.

12. In the 2013-14 Budget, the Financial Secretary proposed to grant each residential electricity account a subsidy of \$1,800 to help ease pressure and stimulate economic growth.

WAY FORWARD

13. Upon the passage of the Appropriation Bill 2013 and subject to Members' views, we will seek funding approval as soon as practicable from FC for the implementation of the proposal.

Financial Services and the Treasury Bureau
April 2013