

Legislative Council Panel on Economic Services
26 April 1999

CLP Power Hong Kong Limited – Review of Tariff Structure

Introduction

1. This paper explains two changes to the structure of the CLP Power's published tariffs planned for implementation on 1 May 1999. These are :
 - a. extension of the block size of the Domestic Tariff; and
 - b. extension of the off-peak period of the Bulk Tariff and the Large Power Tariff to include all Public Holidays.

These changes will have the effect of reducing the electricity bills of the majority of CLP Power's customers. No customer will have to pay more.

Domestic Tariff

Background

2. CLP Power first introduced an inverted block structure for its Domestic Tariff in 1996 with the broad principles of :
 - a. allowing flexibility of smaller increases for the small- and medium-sized domestic customers; and
 - b. supporting DSM (efficient use of energy) philosophies.

Other modern cities, such as Tokyo and San Francisco, also have an inverted block structure for their domestic tariffs based on a similar design concept.

3. CLP Power has continued to refine the structure over the years, taking into account the feedback from our customers. In March 1998, CLP Power changed the 3-block to a 4-block structure to enhance flexibility in controlling tariff levels for smaller customers.
4. In 1998 Hong Kong experienced an exceptionally hot summer (the hottest on record since 1884). As a result, consumption increased and comments were raised on CLP's tariff structure. These comments centred on the following issues :
 - a. More customers moving into the higher blocks because of the hot summer;
 - b. A perception of higher bills following the change from monthly to bimonthly billing in January 1998; and
 - c. CLP Power's communication on the revised block structure should be reinforced.
1. In response to these comments, CLP Power agreed to review the block structure in March 1999 when the result of a full tariff year (i.e. from March 1998 to February 1999) was available for assessment.

The Review

The Planning of the Existing 4-Block Structure

2. Following consultation with Government, CLP Power proceeded with a 4.9% increase in the March 1998 tariff revision. To implement this for the domestic customers, the 3-block structure in use before March 1998 could have been retained with a 4.9% increase to all the block rates. However, the 4-block structure was introduced as it allowed more flexibility for smaller increases to the lower block rates. As a result, small- and medium-sized domestic customers would see a smaller tariff increase; 84% of bills were expected to see an increase of less than 4.9%.

The Outcome

3. Due to the exceptionally hot summer in 1998, more consumption than originally planned was in the 3rd and 4th blocks. Nevertheless, on an annual basis, 81% of our domestic customers still saw an increase of less than 4.9%. This was a small deviation from the planned 84%. The increased consumption due to the hot summer, under the changed block structure produced an additional revenue of \$17m, which was transferred entirely to the Development Fund (\$15m after tax) for customers' benefit. Shareholders return was not increased in any way.

Review Considerations

4. Notwithstanding the fact that the 4-block structure had worked broadly to plan, CLP Power conducted a review of the structure in response to public comment. In this review, CLP Power aimed to respond to customer feedback, whilst adhering to the following principles:
 - a. No customer should pay more;
 - b. Concern of more customers moving to higher blocks in hot summers addressed; and
 - c. DSM principle should be maintained.

The revised domestic tariff structure

5. With effect from 1 May 1999, the 2nd and 3rd blocks of the Domestic Tariff will be extended by 200 units each, with the unit rate of the blocks remaining unchanged as shown in the following table:

**New Domestic Tariff Structure
(to be effective 1 May 1999)**

	Existing		New Extended		Net Rate (¢/unit)
	Block Size	Block Range	Block Size	Block Range	
	(bi-monthly unit)	(bi-monthly unit)	(bi-monthly unit)	(bi-monthly unit)	
1 st Block	400	1-400 th	400	1-400 th	85.6
2 nd Block	400	401-800 th	600	401-1000 th	92.6
3 rd Block	600	801-1400 th	800	1001-1800 th	99.0
4 th Block	-	Over 1400 th	-	Over 1800 th	107.6

Impact to Domestic Customers

1. Referring to Figure 1, in a normal summer, 61% of our domestic customers will have a consumption which falls within the lower 2 blocks under the new structure, as compared to 49% under the existing structure. Even in an exceptionally hot summer, as in 1998, 51% of our domestic customers will remain within the lower 2 blocks under the new structure, as compared to 40% under the existing structure.
2. With the block rates remaining unchanged, no customer will pay more. On the contrary, with the extension of the 2nd and 3rd blocks, domestic customers with bimonthly consumption of more than 800 units will pay less. Accordingly, Figure 1 shows that 51% of domestic customers will pay less in a normal summer under the new structure, 60% in a hot summer as in 1998.
3. When compared to the existing 4-block structure, this new 4-block structure should save our domestic customers approximately \$51m a year with a normal summer or \$58m in a year with a hot summer. Compared to the 3-block structure with an across the board 4.9% increase, the new 4-block structure would save our domestic customers \$52m in a year with a normal summer or \$40m in a year with a hot summer.
4. The impact of this new 4-block structure on domestic customers with different consumption levels is summarized in the chart enclosed at Attachment 1. Customers with a bi-monthly consumption level of less than 800 units and who benefited from a lower increase in the March 98 tariff revision (between 1.8% to 2.7% compared with an average increase of 4.9%) will pay no more. Customers with a bi-monthly consumption level in excess of 800 units will save up to 2.7% less.

Bulk and Large Power Tariffs

5. CLP Power has about 4,000 Bulk Tariff (BT) customers and 74 Large Power Tariff (LPT) customers. They are large non-residential customers. The BT and LPT tariff structure is more sophisticated, incorporating time-of-use rates. Rates of the off-peak period are substantially lower than those of the on-peak period. The time-of-use rates allow customers, such as industrial customers, to enjoy cheaper electricity because of their better consumption pattern.
6. CLP Power has been testing special metering equipment to recognize Public Holidays so that they can be included in the off-peak period. New equipment is being purchased and will be installed with all BT and LPT customers by early 2000.

7. Instead of waiting for completion of installation of this equipment, CLP Power plans to extend the off-peak period of the BT and LPT to include all Public Holidays with effect from 1 May 1999. For those customers whose meters have not yet been upgraded, their electricity bills will be adjusted to account for the number of Public Holidays falling within the billing period.

8. It is expected that this extension of the off-peak period will save our BT and LPT customers about \$14m a year.

Communication to Customers

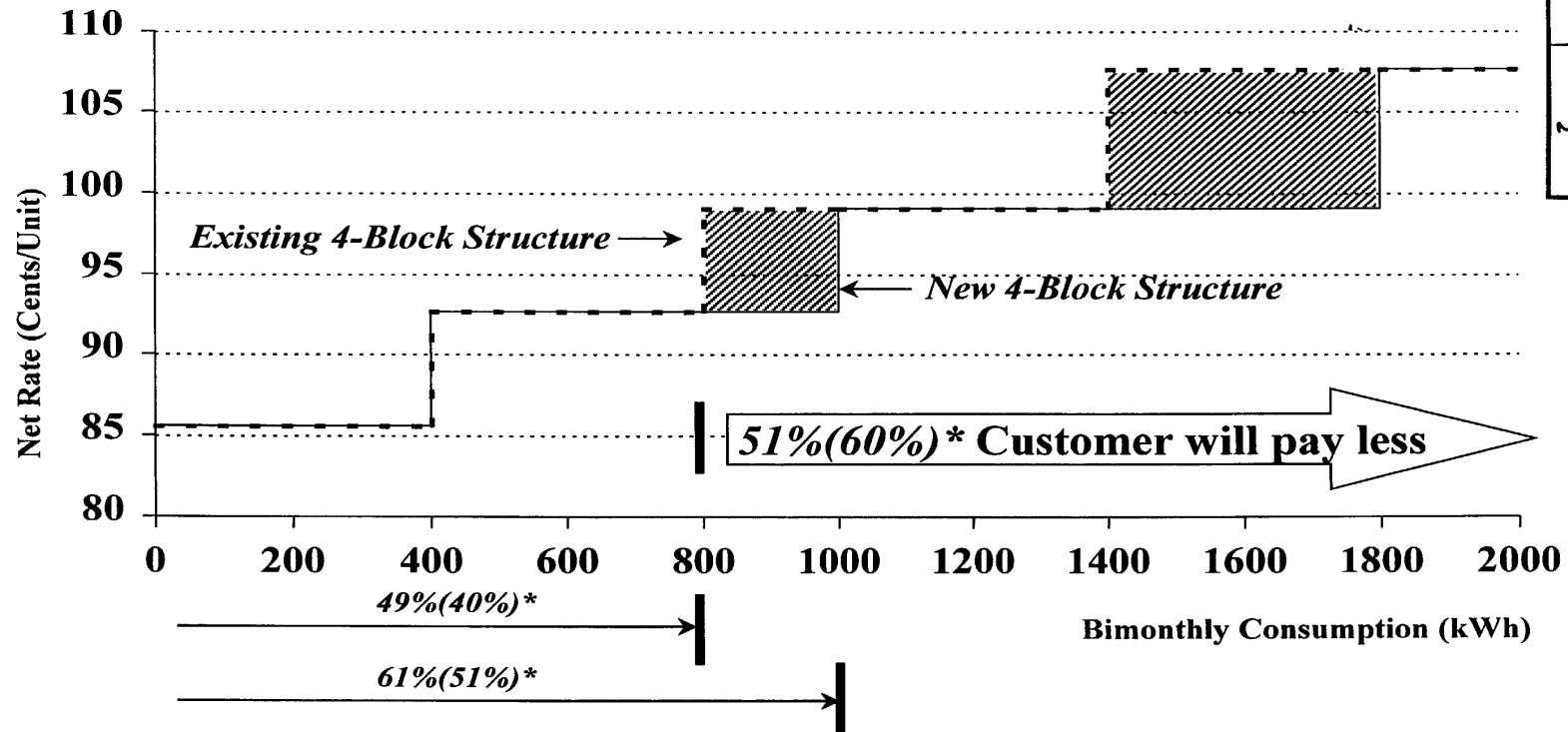
9. Taking note of our customers' feedback for improved communication on tariff issues, the above amendments on tariff structure will be communicated to our customers via the following channels:
 - a. Press release to the media
 - b. Direct mailing to customers
 - c. Advertisements in local newspapers (both Chinese and English)
 - d. Leaflets and displays in our Customer Service Centers
 - e. Briefing to local communities, e.g. via CLP Power's Customer Consultative Group and Local Customer Advisory Committees
 - f. Update CLP Homepage in the Internet

Summary

10. CLP Power has reviewed its tariff structures in response to feedback from our customers. As a result, the 2nd and 3rd blocks of the Domestic Tariff will be extended (per paragraph 9) and the off-peak period of the Bulk Tariff and Large Power Tariff will be extended to include all Public Holidays (per paragraph 16) with effect from 1 May 1999.

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Figure 1 : New Domestic Tariff Structure (Second and Third Blocks Extended)



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- 61% customers fall within the lower two blocks under the new structure as compared with the 49% under the existing structure.
- No customer pays more, 51% pay less in a normal summer
- Domestic customers save \$51m

Note : * Customer Percentage in Summer [Normal (Hot) Temperature]

Impact to Domestic Customers

Bimonthly	Net Tariff	
<u>Consumption</u>	<u>Adjustment</u>	
(kWh)	(\$)	(%)
500	0.0	0.0
800	0.0	0.0
1,000	-12.8	-1.4
1,200	-12.8	-1.2
1,400	-12.8	-1.0
1,800	-47.2	-2.7
2,000	-47.2	-2.4

- *No customer pays more, some pay less.*
- *51% customers in a year with a normal summer pay less under the new structure.*
- *Customers consuming 1,000 units bimonthly will save HK\$12.8 (1.4% reduction)*
- *Customers consuming 1,800 units bimonthly will save HK\$47.2 (2.7% reduction)*