

Review of Sewage Services Charging Scheme

With reference to Hon Tommy Cheung's letter dated 12 January 2007 addressed to the Chairman of the Panel on Environmental Affairs (EA Panel) of the Legislative Council (LegCo), the Administration's response to the issues raised following the same sequence in the letter are as follows:

I. Fixed and variable costs of sewage services apportioned under the Trade Effluent Surcharge (TES)

1. Since depreciation costs are at present not recovered under the Sewage Services Charging Scheme, they are not included in the calculation below.
2. *Fixed costs* include costs for administering the Sewage Services Charging Scheme and for the provision of general departmental support.
3. *Variable costs* are the costs incurred in operating the sewage treatment plants and works and maintaining the sewerage system in general.
4. The sewage services were operated under the Sewage Services Trading Fund between 1995/96 and 1997/98, during which the breakdown of expenditure by Sewage Charge and Trade Effluent Surcharge was not included in the audited accounts. Therefore, the cost breakdowns for these years are not readily available.
5. The fixed and variable costs in providing sewage services apportioned under Trade Effluent Surcharge (TES) from 1998 to 2006 are as follows:

Year	<u>Fixed Cost under TES</u> (\$M)	<u>Variable Cost under TES</u> (\$M)	<u>Total Cost under TES</u> (\$M)	<u>Total Cost of Sewage Services</u> (\$M)
1998/99	54 (5%)	137 (14%)	191 (19%)	989 (100%)
1999/00	68 (6%)	147 (13%)	215 (19%)	1,114 (100%)
2000/01	64 (6%)	145 (13%)	209 (19%)	1,102 (100%)
2001/02	59 (5%)	169 (15%)	228 (20%)	1,147 (100%)
2002/03	57 (5%)	197 (16%)	254 (21%)	1,214 (100%)
2003/04	55 (5%)	195 (16%)	250 (21%)	1,167 (100%)
2004/05	48 (4%)	205 (17%)	253 (21%)	1,224 (100%)
2005/06	42 (4%)	209 (18%)	251 (22%)	1,154 (100%)

6. It can be observed that:
- (a) the fixed costs apportioned under TES are generally on a downward trend, both in terms of absolute amounts and percentages of the overall total costs, due to continuous efforts in containing the overhead costs despite the increases in operating and maintenance services for new installations.
 - (b) the total costs apportioned under TES have been fairly stable in recent years. The increase in 2002/03 was mainly due to the full commissioning of the Harbour Area Treatment Scheme Stage 1 at the end of 2001 which enhanced the level of treatment for a significant amount of sewage from the harbour area.

II Percentages of Water Consumption of Restaurant Trade to Overall Consumption

7. The percentages of water consumption of the restaurant trade relative to overall water consumption of seweraged accounts from year 1998/99 are as follows:

Year	Total Water Consumption of Seweraged <u>Accounts</u> (million cubic metre)	Water Consumption of <u>Restaurant Trade</u> (million cubic metre)	Portion of Water Consumption of Restaurant Trade
1998/99	474.1	78.3	16.5%
1999/00	475.4	79.6	16.7%
2000/01	487.5	82.6	16.9%
2001/02	488.0	82.5	16.9%
2002/03	496.7	81.4	16.4%
2003/04	508.8	79.7	15.7%
2004/05	504.2	81.7	16.2%
2005/06	506.1	82.2	16.3%

8. The lower percentage of water consumption of restaurant trade in 2003/04 when comparing the total consumption was due to the effect of SARS. During the period, the water consumption of the restaurant trade dropped while others increased.

III. Fixed and Variable Costs in Operating HATS Stage 2A

9. Variable costs are the costs incurred in operating the sewage treatment plants and works and maintaining the sewerage system in general. The additional recurrent costs projected to be incurred in operating HATS Stage 2A are the variable costs in the provision of sewage services as defined above. After commissioning of the Advance Disinfection Facilities in 2009, an additional annual recurrent cost of about \$88 million will be incurred for the years from 2009 to 2014. From 2014 onwards, a further additional annual recurrent cost of about \$ 333 million will be incurred when the main works are commissioned. At this stage, we are not anticipating any additional fixed costs associated with HATS Stage 2A. We have already taken into account the operating costs to be incurred in these future projects in formulating our sewage charge increment proposal.

IV. Sewage Charge and Trade Effluent Surcharge Revenue in the Past Five years

10. The Sewage Charge (SC) and Trade Effluent Surcharge (TES) revenue collected in the past five years and the percentage contribution from the restaurant trade are as follows:

Year	Total SC Revenue (\$ M)	Total TES Revenue (\$ M)	SC Revenue from Restaurant Trade (\$ M)	% of SC Revenue from Restaurant Trade	TES Revenue from Restaurant Trade (\$ M)	% of TES Revenue from Restaurant Trade
2001/02	434.3	226.6	72.5	16.7%	201.0	88.7%
2002/03	286.8	169.7	61.6	21.5%	146.0	86.0%
2003/04	405.2	172.8	63.5	15.7%	156.0	90.3%
2004/05	492.2	209.1	76.1	15.5%	184.4	88.2%
2005/06	489.0	209.0	74.3	15.2%	185.1	88.6%

**Environmental Protection Department
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