

For information on
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**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

Tariff Adjustment of The Hong Kong and China Gas Company Ltd

PURPOSE

The Hong Kong and China Gas Company Ltd (Towngas) has advised the Government that it will raise basic tariff by 1.4% with effect from 1 October 2008. This paper briefs members on the Towngas' proposal.

BACKGROUND

Initiatives Taken by Towngas for the Benefits of Customers

2. Towngas has maintained a tariff freeze since 1998. In the last ten years, it has undertaken various initiatives for the benefit of its consumers. In 1998, when the territory was badly hit by the Asian financial crisis, Towngas announced a policy of "no tariff increase, no staff redundancy, no pay cut". During the challenges brought on by SARS in 2003, Towngas offered its industrial and commercial customers, such as restaurants and hotels, 60-day interest-free delayed bill payments.

3. In preparation for using liquefied natural gas (LNG), and mindful of a rising trend in global oil prices, Towngas negotiated a long-term supply contract in 2003 for the delivery of LNG from Western Australia to the LNG receiving station in Shenzhen. Since the introduction of natural gas as additional feedstock in October 2006, fuel savings amounting to HK\$1.9 billion have been passed on to customers. A further positive impact on the community has been the reduction of greenhouse gas and pollutant emissions through the use of natural gas.

4. Towngas also utilizes landfill gas from Shuen Wan Landfill and the North East New Territories Landfill for town gas production. These initiatives enable the Company to avoid importing 43,000 tonnes of fossil fuel (i.e. naphtha) annually and to reduce greenhouse gas emissions by 135,000 tonnes per annum.

Rising Operating Costs and Capital Investment

5. Over the years, the Company's staff and pipeline material costs have risen, with the latter jumping 70% in recent years and salaries cumulatively increasing by 20% in the last ten years. Rental for Towngas' customer centres has also gone up 62% and fuel costs for the Company's fleet of service vehicles have increased by 54%. Insurance premiums have grown three times since 2001.

6. In order to support city development by providing gas supply to newly-developed areas, and to maintain a high safety and reliability standard within the gas system, Towngas has vigorously invested in its infrastructure within Hong Kong. Total capital expenditure invested during the ten-year period from 1998 to 2007 was around HK\$6.5 billion whilst planned investment for the coming six years is projected to be about HK\$5.2 billion.

Tariff Adjustment

7. The Company has, over the years, introduced a range of cost saving measures. However, these initiatives no longer completely offset additional costs and a modest tariff adjustment is now necessary.

8. The Company will raise basic tariff by 0.3 cents per MJ (or 1.4%) effective from 1 October 2008. The Company reckons that over 90% of its residential customers would pay less than \$5 extra for their gas supply each month.

9. Towngas has proposed that the residential maintenance charge remains unchanged.

Information and Consultation Agreement

10. 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 providing justification thereof, in the event of tariff adjustments. Pursuant to the ICA, Towngas needs to consult the Government three months in advance and brief the Legislative Council Panel on Economic Development and the Energy Advisory Committee on tariff adjustments.

ADVICE SOUGHT

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

**Environment Bureau
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