

For information

**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

**Information and Consultation Agreement
With The Hong Kong and China Gas Company Ltd**

PURPOSE

The current Information and Consultation Agreement (ICA) between the Government and The Hong Kong and China Gas Company Limited (Towngas) will expire on 2 April 2012. This paper informs Members of the extension of the current ICA for a period of three years with effect from 3 April 2012.

BACKGROUND

2. Towngas is currently not subject to any price or profit regulation by the Government. The Government and Towngas first entered into an ICA relating to the Company's core gas business and gas-related activities in Hong Kong in April 1997. The ICA is a voluntary agreement with terms and conditions mutually agreed between both parties. Since then, the ICA had been extended four times in 2000, 2003, 2006 and 2009.

The Objective of the ICA

3. The objective of the ICA is to increase transparency in the Towngas' tariff setting mechanism, and provide justification thereof, in the event of tariff adjustments. The ICA also stipulates certain procedures for the Company to -

- (i) consult the Government in the event of tariff adjustments and major system additions (e.g. addition to infrastructure); and
- (ii) disclose certain corporate information to the public on an annual basis.

Experience to Date

4. The ICA has served its objective of enhancing transparency. Pursuant to the ICA, Towngas has consulted the Government on tariff adjustments and major system additions and disclosed the required corporate information to the public. There have been only three basic gas tariff adjustments since the inception of ICA in 1997. Basic gas tariff has remained stable.

5. Since October 2006, Towngas has introduced natural gas as alternative feedstock to naphtha for town gas production, bringing about substantial fuel cost savings in the region of \$7.3 billion for the customers.

6. In May 2007, Towngas started to use treated landfill gas from the North East New Territories Landfill as heating fuel in town gas production. This has reduced the consumption of naphtha by 13,996 tonnes and carbon emission by 43,109 tonnes per year, equivalent to planting 1.9 million trees a year.

7. In January 2011, Towngas launched a new concession scheme for low income families, on top of existing schemes for the elderly, people with disabilities and single parent families. Under the concession schemes, beneficiaries may enjoy a 50% discount off basic gas tariff on the first 500 megajoule of town gas, waiver of monthly maintenance charge, initial charge and security deposit, as well as free appliance maintenance and spare parts.

8. Towngas' major initiatives and performance in the past three years in respect of the environment, safety and corporate social responsibility are summarised in the Annex.

EXTENSION

9. The current ICA will expire on 2 April 2012. Following discussion with Towngas, we have agreed with them that the ICA should be extended for a further period of three years with effect from 3 April 2012 to meet its objective as set out in paragraph 3 above. To further enhance transparency, Towngas will disclose additional information on fuel mix in terms of percentage of naphtha, natural gas and landfill gas used as feedstock, as well as details of operating the concession schemes. The ICA is also updated to reflect relevant technical changes which have been made to the Arbitration Ordinance.

10. The new ICA has been uploaded to the Environment Bureau's website at <http://www.enb.gov.hk> for public information.

Environment Bureau
February 2012

Towngas' Major Initiatives and Performance in 2009-2011

Environmental Initiatives

- The utilization of natural gas as part of the feedstock for the production of town gas brought green and economical energy source for Hong Kong. CO₂ emission was reduced by 91,390 tonnes per year, or 22%, equivalent to planting 4.0 million trees a year. From 2009 to 2011, fuel cost savings of HK\$4.4 billion has been passed onto town gas consumers via the Fuel Cost Variation mechanism.
- The use of treated landfill gas from the North East New Territories Landfill as heating fuel in town gas production not only reduced the consumption of imported naphtha by 13,996 tonnes per year, but also reduced CO₂ emission by 43,109 tonnes, equivalent to planting 1.9 million trees a year.
- More than 3,000 tonnes (195,000 units) of discarded gas appliances were recycled during the period from 2009 to 2011.

Safety Initiatives

- Over 16,500 site inspections were conducted each year from 2009 to 2011, and the number of third party damage to the gas network has maintained at below 20 cases in the last 3 years.
- Number of major gas emergencies dropped by 40% from 10 cases in 2009 to 6 cases in 2011.

Productivity and Customer Service

- Towngas' productivity (in terms of customer to employee ratio) increased 1.5% from 890 in 2009 to 903 in 2011.
- There were over 5,000 written compliments on Towngas' service each year from 2009 to 2011 while the number of written complaints dropped by 47% from 17 to 9 in the same period.

Community Service

- Towngas took part in a number of long-standing charitable programmes. Its Volunteer Team, consisting of employees, customers and their families, has provided a wide range of meaningful and worthwhile services and programmes for the needy and the elderly.
- In January 2011, Towngas launched a new Concession Scheme for Low Income Families. Benefits offered by the Concession Scheme include 50% discount off basic gas tariff on the first 500 megajoule town gas, waiver of monthly maintenance charge, initial charge and security deposit, and free appliance maintenance and spare parts.

External Recognitions

2011

- Global Chinese Business 1000 - Hong Kong Top 20
- “Outstanding Friends of Social Enterprise 2011” by Home Affairs Bureau of the HKSAR and Social Enterprise Advisory Committee
- Distinguished Family - Friendly Employer Award
- The BEST award from American Society for Training & Development
- The 10th Hong Kong Occupational Safety & Health Award
- Excellence of Listed Enterprise Awards

2010

- Global Chinese Business 1000 - Hong Kong : Ranked sixth
- The Wall Street Journal Asia 200 Most Admired Companies – Hong Kong : Ranked Eighth
- Hang Seng Pearl River Delta Environmental Grand Awards
- Highest Service Hour Award (Private Organization – Best Customers Participation Award) Champion
- Volunteers with Service Hours exceeding 10,000 Award

2009

- Hong Kong Awards for Industries : Customer Service Grand Award
- Excellent After-sales Services Award