

Legislative Council Panel on Financial Affairs

Electricity Charges Subsidy

PURPOSE

This paper seeks Members' support for the Administration's proposal to provide an additional subsidy of \$1,800 to each residential electricity account.

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 2015 or the close of the account, whichever is earlier.

JUSTIFICATION

3. To help ease the pressure of economic downturn on our community, the Financial Secretary proposed in the 2012-13 Budget to grant 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 measure will most benefit the lower income households.

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

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.

Co., Ltd. in existence on the first day² of each month for twelve consecutive months, starting tentatively from 1 July 2012. 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, the Government provided further electricity charges subsidy (the 2011 scheme) thereby increasing the commitment to \$13,300 million. Under the 2011 scheme, all eligible residential electricity accounts are receiving a monthly subsidy of \$150 until June 2012.

6. Similar to the 2008 and 2011 schemes, we propose that under the new scheme, any unused credit in a month can be carried forward to cover billed electricity charges under the same account. Under the 2008 and 2011 schemes, the expiry date is set at 31 August 2014. With the proposed scheme, we propose to extend the expiry date so that the new subsidy and those subsidies credited under the 2008 and 2011 schemes can be used to cover billed electricity charges up to 30 June 2015 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 2012, 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 \$13,300 million to \$17,800 million.

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

⁵ One possible factor may be temperature. For instance, the average electricity consumption per residential account in July 2009 when the electricity charges subsidy was in place was some 20% lower than that in July 2007 when no subsidy was given. It may be relevant that the average temperature in July 2009 was 0.5 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 31.3.2012	11,040
2012-13	4,460
2013-14	1,900
2014-15	300
2015-16	100
Total	17,800

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 and 2011 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. The FC subsequently approved on 18 July 2008 vide FCR(2008-09) 41 to increase the subsidy to \$3,600 and to increase the commitment for the purpose from \$4,400 million to \$8,800 million. On 10 June 2011, the FC approved vide FCR(2011-12)21 to further provide each residential electricity account with a subsidy of \$1,800 and to increase the commitment for the purpose from

\$8,800 million to \$13,300 million. As at 31 March 2012, the commitment had an unspent balance of \$2,260 million.

12. In the 2012-13 Budget, the Financial Secretary proposed to grant each residential electricity account a subsidy of \$1,800 to help ease the pressure of economic downturn on our community.

WAY FORWARD

13. Subject to Members' views, we will seek funding approval as soon as practicable from the FC for the implementation of the proposal.

Financial Services and the Treasury Bureau
May 2012