

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

**Basic Tariff Adjustment  
of the Hong Kong and China Gas Company Ltd**

**PURPOSE**

This paper briefs Members on the Hong Kong and China Gas Company Ltd (Towngas)'s plan to raise basic tariff by 1 cent to 22.85 cents per megajoule (MJ)<sup>1</sup> effective from 1 April 2013, with a commitment of no further increase in the coming two years.

**TARIFF ADJUSTMENT**

2. Towngas last raised its basic tariff in April 2010. The Company has continued to invest in its infrastructure to provide gas supply to newly-developed areas and to maintain safe and reliable services. Total capital investment made from 2010 to 2012 was \$2.5 billion whilst planned investment for the coming four years is projected to be \$3.9 billion. In addition, Towngas explains that its staff and other operating costs have risen generally in line with cumulative inflation in Hong Kong. Even with the introduction of cost saving and process re-engineering measures, Towngas considers that such initiatives could no longer offset additional costs.

3. Towngas will raise its basic tariff by 1 cent per MJ effective from 1 April 2013. This is equivalent to a 4.6% increase in basic tariff, or a 3.6% increase in the 2012 effective tariff<sup>2</sup>, against a cumulative inflation rate of about 12% since the last adjustment in 2010. The Company estimates that about 78% of its residential customers would pay not more than \$10 extra for their gas supply each month, and that some 55% of its non-residential customers would pay not more than \$300 extra. Residential customers' monthly maintenance charge would remain unchanged at \$9.5.

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<sup>1</sup> Based on a consumption of 1,000 MJ per month.

<sup>2</sup> Inclusive of both basic tariff and fuel cost adjustment.

4. Some 90,000 elderly, people with disabilities, low income and single parent families would continue to be eligible for the concession schemes offered by Towngas. Apart from a 50% discount for the first 500MJ<sup>3</sup> per month of town gas consumption and waiving monthly maintenance charge and spare part costs, Towngas will also waive the proposed basic tariff adjustment for these customers. In other words, basic tariff for them would remain unchanged.

5. Towngas introduced natural gas as part of the feedstock to produce town gas in October 2006. Since then fuel savings amounting to some \$9.5 billion have been passed on to customers. Despite the increase in international crude oil prices of over 50% in the last 6 years, the effective town gas price in 2012 was still lower than that in September 2006, just before the introduction of natural gas. Productivity, measured by customer to employee ratio, also increased in the last 5 years by 6%.

## **BACKGROUND**

### **Information and Consultation Agreement**

6. Towngas operates in a competitive energy market environment in which consumers may choose from gas or electricity for cooking and water-heating. The Company is currently not subject to any price or profit regulation by the Government. It has nevertheless entered voluntarily into an Information and Consultation Agreement (ICA) with the Government since 1997 to increase transparency in its tariff setting mechanism, and to provide justification thereof, in the event of tariff adjustments. Pursuant to the ICA, Towngas needs to consult the Government three months in advance of a tariff adjustment, and upon request, brief the Legislative Council Panel on Economic Development and the Energy Advisory Committee on such adjustment.

7. Prior to the present adjustment, Towngas has raised its basic tariff twice since 1998, by 1.4% in October 2008 and 2.8% in April 2010.

### **Environment Bureau February 2013**

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<sup>3</sup> The first 500 MJ is the first tier of the tariff table. This consumption range already covers the majority of customers under the concession schemes.