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8 March 2013

**By Email**

Mr Derek Lo  
Clerk to Panel  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Mr Lo,

**Panel on Economic Development**  
**Follow up to meeting on 25 February 2013**  
**Basic tariff adjustment of**  
**the Hong Kong and China Gas Company Limited (Towngas)**

I refer to item 12 in the List of Follow-up Actions (position as at 26 February 2013) and provide Towngas' reply to sub-items (a) and (c) (Annex A) as well as our reply to sub-item (b) below for your further action please.

**Sub-item (b) – Comparison of the tariffs for using town gas and electricity in a domestic consumer's daily activities**

It is difficult to have a simple comparison between the gas and electricity tariffs for domestic consumers' daily activities because different end-user equipment (such as cooker or water heater) has different operating principles, design and construction, which affect the amount of energy to be consumed. Besides, the tariff structures for gas and electricity are also different. As an indication, after the new basic gas tariff takes effect, for a monthly energy consumption of 1,000 MJ (i.e. about 21 units of gas or 280 kWh of electricity), there is no substantial difference between the gas and electricity tariffs to domestic customers.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Vyora Yau', written over a horizontal line.

( Ms Vyora Yau )

for Secretary for the Environment

**Panel on Economic Development**  
**Follow-up to meeting on 25 February 2013**

**Basic tariff adjustment of The Hong Kong & China Gas Co. Ltd. (HKCGC)**

**Requested information**

- (a) **Given that crude oil constituted about 40% of the fuel mix for generation of town gas and the price of crude oil had increased by nearly 50% in the past six years, details of the justifications for an increase of 4.6% in basic tariff, or a 3.6% increase in the 2012 effective tariff**

Town gas price comprises of two components, namely Basic Tariff and “Fuel Cost Variation Charge (FCVC)”.

FCVC represents the difference between the standard cost of fuels and the actual cost of fuels, calculated in a monthly basis. Any fuel cost variation adjustment will be passed on to the consumers by way of rebates or surcharges. The 50% increase in crude oil price in the past 6 years was handled in the FCVC component. With the introduction of natural gas as over 50% of the feedstock to produce town gas since October 2006, FCVC was drastically reduced and was still lower than the level at 6 years ago, even under an increasing oil price environment.

In the last 3 years, operating costs have been increasing continuously. The cumulative inflation is 12%. The cumulative increases in various major cost items of HKCGC are even higher, as shown in Table 1.

Table 1: Increase in operating costs

Item	Increase (2010-2013)
Salary increase	18%
Rental expenses	16%
Vehicle fuel	19%
Rate and rent	14%

HKCGC has carried out a number of cost saving and process re-engineering measures to improve our productivity which amounts to about 3-4% in the last 3 years. However these initiatives could not offset the additional costs due to

high inflation. The 4.6% increase in the Basic Tariff only partially recovers the additional operating costs. Moreover, HKCGC continues to invest in its infrastructure to provide gas supply to newly-developed areas and to maintain safe and reliable services. Total capital investment for the coming four years is projected to be \$3.9 billion which will also impose additional financing costs on the operation.

- (c) Details of the percentage increase in salaries for HKCGC staff at workers level and at management level since 2010, given that the overall salary increase for staff between 2010 and 2013 was 18%.**

The salary increases of HKCGC since 2010 are tabulated below :-

Salary Increase	2011	2012	2013F	Cumulative (2011-2013)
Staff (Management)	+4%	+8%	+5%	+18%
Staff (General)	+4%	+8%	+5%	+18%
Workmen	+4%	+8%	+5%	+18%