

For information on
3 July 2015

**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

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

PURPOSE

This paper briefs Members on the Hong Kong and China Gas Company Limited (Towngas)'s plan to raise basic tariff by 1 cent to 23.85 cents per megajoule (MJ)¹ effective from 1 August 2015, with a commitment of no further increase in the coming two years.

TARIFF ADJUSTMENT

2. Towngas last raised its basic tariff in April 2013. 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 2013 to 2014 was \$2 billion whilst planned investment for 2015 and the upcoming three years is projected to be \$4.6 billion in total. In addition, Towngas explains that an upward adjustment is necessary to cope with the inflationary increase in operating costs and to maintain high quality customer services.

3. Towngas will raise its basic tariff by 1 cent per MJ effective from 1 August 2015. This is equivalent to a 4.4% increase in basic tariff, or a 3.5% increase in the 2014 effective tariff², against a cumulative inflation rate of about 9% since the last adjustment in 2013. The Company estimates that almost 80% of its residential customers would pay not more than \$10 extra for their gas supply each month. Residential customers' monthly maintenance charge would remain unchanged at \$9.5.

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. Towngas will waive the proposed basic tariff adjustment for these customers.

¹ Based on a consumption of 1,000 MJ per month (almost 80% of Towngas' domestic customers are consuming at or below 1,000 MJ per month).

² Inclusive of both basic tariff and fuel cost variation charge.

5. Towngas introduced natural gas as part of the feedstock to produce town gas in October 2006. Since then fuel savings amounting to some \$14 billion have been passed on to customers. Benefited from crude oil price slump, the fuel cost variation charge dropped by around 50% in the past 2 years. As a result, the effective town gas price in the first half of 2015 was 11% lower than that in 2013 and was still lower than that in September 2006, just before the introduction of natural gas, while the cumulative inflation rate during the period was over 30%.

6. To contain the tariff implications on its customers, Towngas has committed to freeze the basic tariff in the coming two years after the current round of tariff adjustment.

BACKGROUND

Information and Consultation Agreement

7. 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.

8. Prior to the present adjustment, Towngas has raised its basic tariff four times since the inception of the ICA in 1997, by 4.8% in January 1998, 1.4% in October 2008, 2.8% in April 2010 and 4.6% in April 2013.

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