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29 January 2015

Ms Debbie Yau
Clerk to Panel (Economic Development)
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Ms Yau,

**Price Adjustment and Price Adjustment Mechanism of
Domestic Liquefied Petroleum Gas (LPG)**

Thank you for your letter of 21 January. Regarding the concerns of Hon Tang Ka-piu on domestic LPG prices, we provide our reply below, and attach oil companies' response at **Annexes 1 to 2¹**.

Same as other commodities in the market, the prices of domestic LPG are determined by oil companies having regard to commercial practices and their operating costs. The Government understands and is concerned about the impact of domestic LPG prices on the public and therefore encourages the industry to enhance transparency on price setting.

In this respect, a major local LPG supplier (the Company) has established, since 1999 and on its own initiative, a price adjustment mechanism of domestic LPG to enhance the transparency of price setting. In

¹ Sinopec's response is available in Chinese only.

accordance with this mechanism, the Company, once every three months (i.e. at end of January, April, July and October), sets the prices for the coming three months by forecasting the import prices for the coming three months in light of the latest international LPG price, and making positive or negative adjustment for any difference between the actual import prices and the forecast import prices in the last review. In addition, according to this mechanism, the Company also reviews its operating costs once every twelve months.

According to our observation, the adjustments of listed prices of piped LPG and wholesale prices of cylinder LPG of other oil companies in the market generally follow those of the Company. Their price adjustments are therefore are very close to each other.

LPG, crude oil or auto-fuels are different products. Their price movements therefore would not necessarily be the same. In monitoring domestic LPG prices, we will make reference to the movement of international LPG prices (calculated using Saudi Arabia monthly exporting Contract Price²) and local LPG import prices and assess whether the Company's price forecasts are reasonable. We will also follow up with the Company the positive or negative price adjustments due to actual and forecast price difference in the last review, and assess if the annual adjustment in operating cost is reasonable.

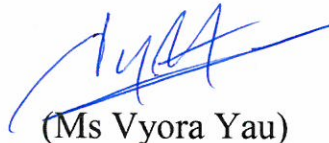
Under the above price adjustment mechanism, the Company has, since mid last year, adjusted the price of domestic LPG three times, at end July and end October 2014 as well as end January 2015 respectively. The listed price of domestic piped LPG has reduced by around 20% from \$38/cubic metre at the beginning of July 2014 to the latest price of less than \$31/cubic metre. The wholesale price of cylinder LPG has been adjusted by the same magnitude. Comparing to the LPG import prices of the same period (\$7.29/kg for July 2014 and \$5.93/kg for November)³, the relevant adjustment magnitude is in tandem with the downward movement of the LPG import prices.

² Please refer to http://www.emsd.gov.hk/emsd/chi/sgi/lpg_pub_price.shtml

³ Please refer to LegCo Paper No. CB(4)304/14-15(01)

We will endeavour to ensure the reliability of energy supply, maintain an open market and remove barriers to enter into the market in order to enhance competition.

Yours sincerely,



(Ms Vyora Yau)
for Secretary for the Environment

ExxonMobil Hong Kong Limited's reply

We understand the public's concern about the domestic LPG prices. We closely monitor the market and review our domestic LPG price once every three months. In determining the recommended LPG list prices, we consider a number of factors, including product costs, transport and operating costs, commercial arrangements and market dynamics. Between Jun 2014 and Dec 2014, our recommended LPG list prices have cumulatively reduced by HK\$2.0/kg, which is in line with the changes of the Saudi Aramco LPG Contract Price and other market factors.

Our recommended LPG list prices are for distributors' reference only. The retail prices of domestic LPG are decided by individual distributors based on their costs of operations and market dynamics.

We will continue to closely monitor the market and make adjustments when warranted.

23 January 2015

Shell Hong Kong Limited's reply

The current pricing mechanism of domestic LPG has been in place since January 1999. The price is reviewed every quarter. The adjustment reflects mainly the difference between the forecast and actual import prices for the past quarter, and the forecast price for the coming quarter. Adjustment is made for every price review prudently based on the latest import price figures. According to existing adjustment mechanism, prices of domestic LPG are adjusted once every quarter, serving the purpose of stabilising the gas price.

We have engagement meetings with Environment Bureau and Consumer Council every time before the price for domestic LPG is adjusted to explain the rationale of the adjustment. And every time after the price adjustment, we will notify all LPG distributors, as well as domestic LPG users through estate management service offices, owners' corporations and other units.

We will continue to monitor import prices closely, and certainly reduce LPG prices should import costs decrease based on the established pricing mechanism.

26 January 2015