

For information

**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

**Information and Consultation Agreement
With The Hong Kong and China Gas Company Ltd**

PURPOSE

The current Information and Consultation Agreement (ICA) between the Government and The Hong Kong and China Gas Company Limited (Towngas) will expire on 2 April 2015. This paper informs Members of the extension of the current ICA for a period of three years with effect from 3 April 2015.

BACKGROUND

2. Towngas is currently not subject to any price or profit regulation by the Government. The Government and Towngas first entered into an ICA relating to the Company's core gas business and gas-related activities in Hong Kong in April 1997. The ICA is a voluntary agreement with terms and conditions mutually agreed between both parties. Since then, the ICA had been extended five times in 2000, 2003, 2006, 2009 and 2012.

The Objective of the ICA

3. The objective of the ICA is to increase transparency in the Towngas' tariff setting mechanism, and provide justification thereof, in the event of tariff adjustments. The ICA also stipulates certain procedures for the Company to -

- (i) consult the Government in the event of tariff adjustments and major system additions (e.g. addition to infrastructure); and
- (ii) disclose certain corporate information to the public on an annual basis.

Experience to Date

4. The ICA has served its objective of enhancing transparency. Pursuant to the ICA, Towngas has consulted the Government on tariff adjustments and major system additions and disclosed the required corporate information to the public. There have been only four basic gas tariff adjustments since the inception of ICA in 1997. Basic gas tariff has remained stable.

5. Since October 2006, Towngas has introduced natural gas as alternative feedstock to naphtha for town gas production, bringing about substantial fuel cost savings in the region of \$13.5 billion for the customers.

6. In May 2007, Towngas started to use treated landfill gas from the North East New Territories Landfill as heating fuel in town gas production. In 2014, this has reduced carbon emission by 31,574 tonnes, equivalent to planting 1.4 million trees.

7. Towngas also planned to convert the raw landfill gas generated from Southeast New Territories landfill to synthetic natural gas for injection into town gas supply network by dedicated pipeline in mid 2016. By turning waste into usable energy, this will reduce carbon emission by 56,000 tonnes per year, equivalent to planting 2.4 million trees a year.

8. Towngas has launched four concession schemes for the elderly, people with disabilities, single parent families and low income families. Under the concession schemes, beneficiaries may enjoy a 50% discount off basic gas tariff on the first 500 megajoule of town gas, waiver of monthly maintenance charge, initial charge and security deposit, as well as free appliance maintenance and spare parts.

9. Towngas' major initiatives and performance in the past three years in respect of the environment, safety, customer service and corporate social responsibility are summarised in the Annex.

EXTENSION

10. The current ICA will expire on 2 April 2015. Following discussion with Towngas, we have agreed with them that the ICA should be extended for a further period of three years with effect from 3 April 2015 to meet its objective as set out in paragraph 3 above. To further enhance transparency, Towngas will disclose additional information on capital investment as well as statistics of emergency drills with Government authorities. The ICA is also updated to

reflect relevant technical changes which have been made to the Arbitration Ordinance.

11. The new ICA has been uploaded to the Environment Bureau's website at <http://www.enb.gov.hk> for public information.

Environment Bureau
February 2015

Towngas' Major Initiatives and Performance in 2012-2014

Environmental Initiatives

- In December 2014, Towngas signed an agreement with Environmental Protection Department to convert the raw landfill gas generated from Southeast New Territories landfill into synthetic natural gas for injection into town gas supply network by dedicated pipeline. This will reduce carbon emission by 56,000 tonnes per year, equivalent to planting 2.4 million trees a year. Air quality in the vicinity will be greatly improved by turning waste into usable energy. The expected commission date of this project will be mid 2016.
- The utilization of natural gas as part of the feedstock for the production of town gas brought green and economical energy source for Hong Kong. CO₂ emission was reduced by 96,034 tonnes per year, or 23%, equivalent to planting 4.2 million trees a year. From 2012 to 2014, fuel cost savings of HK\$6.2 billion has been passed onto town gas consumers via the Fuel Cost Variation mechanism.
- The use of treated landfill gas from the North East New Territories Landfill as heating fuel in town gas production in 2014 reduced CO₂ emission by 31,574 tonnes, equivalent to planting 1.4 million trees.
- More than 3,300 tonnes (210,000 units) of discarded gas appliances were recycled during the period from 2012 to 2014.

Safety Initiatives

- In 2014, a 'Service Riser Inspection Quadcopter' with digital camera and gas detecting device was developed to carry out gas riser inspection tasks outside the building wall, which was previously performed by technicians at the window of customer's premises. This new innovative tool enhanced the efficiency and quality of the inspection work for better gas safety practice.
- Over 13,500 site inspections were conducted each year from 2012 to 2014, and the number of third party damage to the gas network has maintained at below 20 cases in the last 3 years.

- Number of major gas emergencies has been maintained at below 12 cases in the last 3 years.

Productivity and Customer Service

- In 2013, Towngas launched eChat and ‘Callback service’ at Towngas e-platform to further enhance its customer service by providing more electronic means of communication channels with consumers.
- In 2012, Towngas shortened its appointment time slots for maintenance service from 2-hour to 1-hour time interval. This enhanced the flexibility for making service acquisition and reduced customer’s waiting time required.
- Towngas’ productivity (in terms of customer to employee ratio) increased 2.2% from 903 in 2011 to 923 in 2014.
- There were over 5,500 written compliments on Towngas’ service each year from 2012 to 2014 while the number of written complaints maintained at below 15 in the same period.

Community Service

- Towngas took part in a number of long-standing charitable programmes. Its Volunteer Team, consisting of employees, customers and their families, has provided a wide range of meaningful and worthwhile services and programmes for the needy and the elderly.
- Since October 2013, Towngas donated and installed more than 100 intelligent electrical toilet seats in 30 elderly homes to enhance the ability of the elderly to take care of themselves and at the same time, to reduce the workload of nursing staff.

External Recognitions

2014

- Global Chinese Business 1000 – Hong Kong : Ranked seventh

- Hong Kong Green Awards - Environmental, Health and Safety Award (Platinum)
- Distinguished Family-Friendly Employers (Corporations Category) - Family Council
- Hong Kong Information and Communications Technology Awards – Best Business Solutions (application) Gold Award – Office of the Government Chief Information Officer
- Excellent Services Brand Award: Excellent After-sales Services Award
- Hong Kong Occupational Safety & Health Award

2013

- Forbes Global 2000 Leading Companies – Hong Kong Top Thirty
- Corporate Governance Excellence Awards - The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of HKBU
- Hong Kong Awards for Industries: Innovation and Creativity Grand Award
- Asian Most Admired Knowledge Enterprise (MAKE) Award
- Supreme Service Awards - CAPITAL CEO & CAPITAL Entrepreneur
- Volunteers with Service Hours Exceeding 10,000 Award

2012

- UK Financial Times Global 500 List
- Hong Kong Awards for Industries: Consumer Product Design Category
- Hang Seng Pearl River Delta Environmental Awards
- Excellence in Practice Citation – American Society for Training and Development
- The Excellence of Listed Enterprise Awards
- Champion of Highest Service Hour Award (Private Organizations - Best Customer Participation) - Social Welfare Department