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Panel on Economic Development
Meeting on 27 June 2016

Background brief on
prices of domestic liquefied petroleum gas and
selection of centralized domestic liquefied petroleum gas suppliers
for subsidized housing

Purpose

This paper provides background information on matters relating to the prices of domestic liquefied petroleum gas ("LPG") and the selection of centralized LPG suppliers for subsidized housing. The paper also summarizes the views and concerns expressed by members when relevant issues were discussed at the meeting of the Panel on Economic Development ("the Panel").

Background

2. The retail market of LPG mainly consists of domestic LPG and auto LPG. Domestic LPG also comprises piped LPG supplied to housing estates and cylinder LPG distributed to consumers through retail operators. There are three and five LPG suppliers supplying piped and cylinder LPG respectively in Hong Kong¹. In 2015, the number of household users in Hong Kong using piped and cylinder LPG was about 220 000 and 210 000 respectively.

Pricing of domestic LPG

3. The prices of domestic LPG (including piped LPG and cylinder LPG) are determined by individual oil companies having regard to commercial practices and their respective operating costs. Since 1999, a major local LPG supplier ("the Company") has established a price adjustment mechanism of

¹ Three local oil companies provide both piped and cylinder LPG in Hong Kong, namely Shell Hong Kong Limited, ExxonMobil Hong Kong Limited and Sinopec Group; while Concord Oil (Hong Kong) Limited and New Ocean Energy Holdings Limited supply only cylinder LPG.

domestic LPG on its own initiative to enhance the transparency of price-setting. 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 Company².

4. In monitoring domestic LPG prices, the Administration makes reference to the movement of international LPG prices (calculated based on Saudi Arabia monthly exporting Contract Price)³ and local LPG import prices⁴, and in turn assesses whether the price forecasts of the Company are reasonable. The Administration also follows up with the Company on its upward or downward price adjustments due to the difference between actual and forecast price in its last review, and assesses if its annual adjustment of the operating cost is reasonable.

5. In response to a Member's earlier request, the Administration has written to all the three domestic piped LPG suppliers to request them to publish their price information. Two of them have published the updated domestic piped LPG prices on their websites since July 2015, while the other supplier indicates that it is unable to publish price information about its domestic piped LPG products due to its company policy.

6. Regarding whether to extend the above-mentioned arrangement to domestic cylinder LPG, the Administration has advised that oil companies had expressed that the retail prices of domestic cylinder LPG are determined by individual distributors having regard to their own commercial strategies and market competition environment. They will not set any suggested retail prices of their cylinder LPG products for the distributors and neither will they require distributors to provide them with the resale prices.

Selection of LPG suppliers for subsidized housing

7. According to the Administration, the LPG suppliers to provide central LPG supply to public housing developments were selected through open tenders. At present, 15 public rental housing estates of the Hong Kong Housing Authority ("HKHA") are provided with central LPG supply system. Names of

² As advised by the Administration, the Company, once every three months (i.e. at the end of January, April, July and October), sets the prices for the coming three months in light of the latest international LPG price, and makes positive or negative adjustment for any difference between the actual import prices and the forecast import prices in the last review. The Company also reviews its operating costs once every twelve months.

³ For details, please refer to http://www.emsd.gov.hk/en/gas_safety/lpg_vehicle_scheme/auto_lpg_prices/index.html.

⁴ In accordance with the Import and Export (Registration) Regulations, importers are required to lodge trade declarations with the Customs and Excise Department, and the Census and Statistics Department compiles import price statistics based on the information in the trade declarations and provides the relevant statistics to the Panel. The public can access the relevant import prices and the average retail prices of domestic cylinder LPG through the Legislative Council's website.

these estates and their contract periods of the first and subsequent contracts for LPG supply services are set out in **Appendix I**. According to HKHA's prevailing policy, renewal of contract is subject to the satisfactory performance of the supplier during the contract period. The Housing Department will regularly monitor the performance of the LPG supplier in various aspects, including staffing provision, supervision, management coordination, customer service, maintenance and repair, etc., and will seek residents' views on the supplier's services through the Estate Management Advisory Committee during the contract period.

8. As for Home Ownership Scheme courts and Tenants Purchase Scheme estates, the owners' corporations concerned may opt for automatic extension of the contract or make arrangements for a new supply contract upon expiry of the contract signed between HKHA and the current supplier.

Previous discussion

9. The Panel last discussed the prices of auto-fuel and domestic LPG at its meeting on 27 April 2015. Views and concerns expressed by members at the meeting are summarized in the ensuing paragraphs.

10. The Panel was generally concerned about the pricing mechanism of oil products and how the Administration monitored the work of oil companies to ensure that the local LPG suppliers would not take advantage of the trend movements of international LPG prices.

11. Views had been expressed that notwithstanding the measures taken by oil companies to enhance transparency of their pricing mechanism, the public perception of "quick going up, slow going down" phenomenon regarding domestic LPG prices still existed. There was suggestion that all domestic LPG suppliers should adopt their own pricing review mechanism and provide their own set of operating costs so as to avoid the public perception of price fixing among different domestic LPG suppliers. The Administration was requested to discuss with domestic LPG suppliers further to enhance transparency of pricing of oil products.

Council questions

12. At the Council meetings of 25 March 2015, 22 April 2015, 27 January 2016 and 25 May 2016, Hon TANG Ka-piu, Dr Hon Elizabeth QUAT and Hon CHAN Hak-kan raised questions related to the regulation of LPG prices, transparency of LPG price information to the public, suspicion of "collusive price-fixing" of oil companies and method of selecting centralized LPG supplier

for subsidized housing estates/courts. Hyperlinks to the relevant written replies from the Administration are provided in **Appendix II**.

Latest development

13. Hon TANG Ka-piu wrote to the Panel on 12 May 2016 requesting for discussion on the price adjustment mechanism of domestic LPG suppliers and the method of selecting centralized LPG supplier for housing estates/courts. The Administration will update the Panel on the related issues at the meeting on 27 June 2016.

Relevant papers

14. A list of relevant papers which are available on the Legislative Council Website (<http://www.legco.gov.hk>) is in **Appendix II**.

Council Business Division 4
Legislative Council Secretariat
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**List of public rental housing estates under
the Hong Kong Housing Authority using piped LPG
and their LPG supply contract periods**

Name of Estate	Contract Period of the First Central LPG Supply Contract	Contract Period of Subsequent Contract
Butterfly Estate	15 year	10 year
Choi Yuen Estate	15 year	10 year
Kam Peng Estate	15 year	10 year
Kwong Fuk Estate	15 year	10 year
Lung Tin Estate	15 year	10 year
Nga Ning Court	15 year	first contract has not yet expired
Ngan Wan Estate	15 year	10 year
Oi Man Estate	15 year	10 year
On Ting Estate	15 year	10 year
Sam Shing Estate	15 year	10 year
Shui Pin Wan Estate	15 year	10 year
Tai Yuen Estate	15 year	10 year
Wah Fu (II) Estate	15 year	10 year
Wu King Estate	15 year	10 year
Yau Oi Estate	15 year	10 year

Source: written Council question raised by Hon TANG Ka-piu on "Selection of centralized liquefied petroleum gas suppliers for subsidized housing estates/courts" at the Council meeting of 25 May 2016

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	27 April 2015	Administration's paper Background brief Minutes
Council meeting	25 March 2015	Council question on "Use of domestic fuel in subsidized housing estates/courts" raised by Hon TANG Ka-piu
	22 April 2015	Council question on "Prices of domestic liquefied petroleum gas" raised by Dr Hon Elizabeth QUAT
	27 January 2016	Council question on "Prices of auto-fuels and domestic liquefied petroleum gas" raised by Hon CHAN Hak-kan
	25 May 2016	Council question on "Selection of centralized liquefied petroleum gas suppliers for subsidized housing estates/courts" raised by Hon TANG Ka-piu