

For information on  
16 June 2017

**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 plan by Hong Kong and China Gas Company Limited (Towngas) to raise basic tariff by 1.1 cents to 24.95 cents per megajoule (MJ)<sup>1</sup> effective from 1 August 2017, with its commitment to freeze the basic tariff in the coming two years.

**TARIFF ADJUSTMENT**

2. Towngas last raised its basic tariff in August 2015. Between 2015 and 2016, it has continued to invest a total capital investment of \$2.4 billion in its infrastructure to provide gas supply to newly-developed areas and to maintain safe and reliable services.

3. Towngas will raise its basic tariff by 1.1 cents per MJ effective from 1 August 2017. This is equivalent to a 4.6% increase in basic tariff, or a 4.3% increase in the 2016 effective tariff<sup>2</sup>, against a cumulative inflation rate of about 5.5% since the last adjustment in 2015. Towngas explains that it has to increase basic tariff so as to cope with the inflationary increase in operating costs, including the escalating local manpower costs as well as the substantial capital expenditure in the coming years. The planned capital investment for 2017 and the following two years is projected to be about \$3.8 billion in total. It estimates that around 80% of its residential customers would pay not more than \$10 extra for their gas supply each month. Residential customers' monthly maintenance charge will remain unchanged at \$9.5 in the coming two years from 1 August 2017.

4. Towngas will continue to make available its concession schemes to eligible recipients including some 90,000 elderly, people with disabilities, low income and single parent families who will not be subject to the basic tariff adjustment.

---

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

<sup>2</sup> 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 \$15 billion have been passed on to customers. Benefited from crude oil price slump, the fuel cost variation charge dropped by around 30% in the past two years. As a result, the current effective town gas price was lower than that in 2015 as well as that in September 2006, just before the introduction of natural gas, although the cumulative inflation rate during the period was over 40%.

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

## **BACKGROUND**

7. Towngas operates in a competitive energy market environment whereby consumers may choose to use gas or electricity for cooking and/or water-heating. While it is currently not subject to any price or profit regulation by the Government, Towngas has entered voluntarily into an Information and Consultation Agreement (ICA) with the Government since 1997 to increase transparency in its tariff setting mechanism, and provide an opportunity for the Government to discuss with Towngas on its justifications in the event of tariff adjustments. Pursuant to the ICA, Towngas needs to consult the Government three months in advance of any 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 five 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, 4.6% in April 2013 and 4.4% in August 2015.

**Environment Bureau**  
**June 2017**