

For information

**LEGISLATIVE COUNCIL
PANEL ON ECONOMIC DEVELOPMENT**

**Issues Relating to the Supply of Centralised
Liquefied Petroleum Gas to Public Rental Housing Estates**

PURPOSE

This paper aims to inform Members of the Hong Kong Housing Authority's (HA) new arrangements, subsequent to the completion of the review, for the supply of centralised liquefied petroleum gas (LPG) to public rental housing (PRH) estates after expiry of the existing contracts.

BACKGROUND

2. At present, there are 15 PRH estates¹ that are installed with centralised LPG supply. At the Legislative Council Panel on Economic Development meeting on 27 June 2016, HA indicated that it was studying the latest market situation and the experience in private housing developments with a view to considering whether any changes should be made to the policy of renewing the centralised LPG supply contracts with the existing suppliers upon contract expiry. In September 2016, the Competition Commission (the Commission) also provided recommendation² to HA on the above policy.

1 Butterfly Estate, Choi Yuen Estate, Kam Peng Estate, Kwong Fuk Estate, Lung Tin Estate, Ngan Wan Estate, Oi Man Estate, On Ting Estate, Sam Shing Estate, Shui Pin Wai Estate, Tai Yuen Estate, Wah Fu (II) Estate, Wu King Estate, Yau Oi Estate and Nga Ning Court.

2 In gist, the Commission recommends the following –

- (i) HA should consider introducing a competitive process to determine the award of subsequent contracts;
- (ii) HA should consider forgoing the practice of treating “premium” as the key criterion for awarding subsequent contracts and in its place use LPG prices to be charged to the residents as the basis, awarding the contract to the supplier who proposes the lowest initial LPG price;
- (iii) HA should consider “bundling” estates for tender or negotiation with suppliers to provide more incentives for both incumbent and non-incumbent suppliers to bid for “packages” of estates; and
- (iv) the residents of the estates concerned should be involved in deciding whether subsequent contracts should be awarded to incumbent suppliers or whether a competitive process should be followed.

3. HA has now completed the review. During the review, HA made reference to the experience in private housing developments, the information gathered from LPG suppliers and the Electrical and Mechanical Service Department (EMSD), and considered public views expressed and the Commission's recommendations. In accordance with the review outcome, the Commercial Properties Committee of HA approved at its meeting on 21 August 2017 that tender should be arranged for awarding new contracts for the supply of LPG to PRH estates upon expiry of the existing contracts as well as other related arrangements³.

NEW TENDERING ARRANGEMENTS

4. Tendering is not a common procurement approach for contracts for LPG supply to private housing estates and adopting this approach may lead to the possibility of a new supplier, causing the residents to go through certain procedures with the new supplier. There may also be a risk of some disruption to the service. Nonetheless, we understand that some members of the public and the Commission have advocated a competitive procurement process. HA also considers that the tendering process may be taken as an opportunity to improve services for the residents. On balance, HA considers it desirable to introduce a competitive process and therefore will arrange tenders for the award of contracts upon expiry of the existing contracts for the supply of LPG to PRH estates.

5. On the basis of EMSD's requirements, new suppliers are required under the tender and the new contract to conduct a Quantitative Risk Assessment (QRA) study and carry out the necessary improvement works / mitigation measures. At present, HA's current contracts already require suppliers to carry out regular inspection of the LPG system, including internal piping within residential units to provide certain safeguard for safety. Although EMSD's requirements for QRA and improvement works / mitigation measures will take time and resources, they will provide better safeguard, which will be particularly useful as the LPG systems age. Furthermore, as part of the tendering arrangement, HA also requires the new supplier to provide free annual inspection service for gas appliances to domestic users and waive the minimum

³ Paper No. CPC 15/2017
<https://www.housingauthority.gov.hk/en/common/pdf/about-us/housing-authority/ha-paper-library/CPC15-17.pdf>

charge in order to provide better services to the residents.

6. Regarding the tender assessment and award of contract, HA will adopt a two-envelope tendering system comprising technical and financial proposals. For financial proposals, HA has considered the possibility of using LPG price as the basis for tender selection but noted that there are several limitations for this approach. Firstly, the LPG price may be lower or higher than the market price. The possibility of the latter scenario cannot be ruled out. Besides, there may be contracts under which HA will not be able to receive a premium but has to pay a negative premium to the supplier. Furthermore, the improvements in paragraphs 4 and 5 above will add costs to suppliers which will be reflected in the tender bid. Taking into account the above factors, HA considers it more appropriate for HA to take up both the upside and the downside of the tender bid by way of premium. A further consideration is that in arranging for the supply of LPG, HA has to use some public resources (i.e. the land used for the LPG compounds as well as staff deployed for monitoring the operation of the LPG systems and the performance of the suppliers), and HA may be able to account for such public resources with the premiums received through the contracts. As for the LPG price for users, the requirement in the existing contracts for the supplier to charge a price no higher than that of the market rate will be retained.

IMPLEMENTATION

7. We note that the Commission recommends HA to consider bundling multiple estates for conducting tender and inviting suppliers to bid in a package, so as to mitigate advantages that the incumbent suppliers may enjoy and incentivise non-incumbent suppliers to participate in bidding. HA has no in-principle objection to such recommendation, which can address the situation in which some sites may be less attractive due to their locations or other factors. However, in considering the possibility of bundling multiple estates for conducting tender, HA needs to take into account the expiry dates of the contracts as well as other factors such as location, economies of scale, etc.

8. At present, the LPG supply contracts for six PRH estates installed with centralised LPG supply have already expired⁴. Among the six estates, the LPG supply systems for Wah Fu (II) Estate and Nga Ning Court do not involve Tenant Purchase Scheme (TPS) estates and Home Ownership Scheme (HOS) courts⁵. In anticipation of the complications that may be involved in the new arrangements for contracts involving TPS estates and HOS courts, we will arrange, as a trial, bundling the contracts for the supply of LPG to Wah Fu (II) Estate and Nga Ning Court for tendering. We consider it prudent to consider appropriate arrangements in taking forward the implementation arrangements for other estates or courts after consolidating and considering the experience gained from the tendering exercise of the above two PRH estates.

9. Members are invited to note the above arrangements.

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⁴ For the interim period before the award of new contracts, existing suppliers of the PRH estates concerned can continue the supply of centralised LPG to the residents by way of licences.

⁵ There are eight PRH estates installed with centralised LPG supply for which the LPG compounds situated in the estates serve both the PRH estates and the adjoining HOS courts. Besides, there are two TPS estates for which the LPG compounds are situated on land owned by HA within the TPS estates and supply LPG to the TPS estates and the adjoining HOS courts.