

For information on
21 June 2019

**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 26.05 cents per megajoule (MJ)¹ with effect from 1 August 2019, and its commitment to freeze the basic tariff in the coming two years.

TARIFF ADJUSTMENT

2. Towngas last raised its basic tariff in August 2017. It plans to raise its basic tariff by 1.1 cents per MJ effective from 1 August 2019, representing an increase of 4.4%, which is equivalent to a 3.8% increase in the 2018 effective tariff (inclusive of both basic tariff and fuel cost variation charge).

3. Towngas explains that the tariff adjustment is to cope with the inflationary increase in operating costs, including manpower costs and depreciation charges etc., as well as the substantial capital investment in the coming years. The cumulative inflation rate from May 2017 to April 2019 was 4.4%. As regards capital investment, between 2017 and 2018, Towngas' continuous investment in its infrastructure to supply gas to newly-developed areas and maintain safe and reliable services amounted to \$2.5 billion. The capital investment for 2019 and the following five years is projected to be about \$8.5 billion in total.

4. Towngas estimates that following this tariff adjustment, about 75% of its residential customers will pay no more than \$10 extra for their gas bill each month. Residential customers' monthly maintenance charge will remain unchanged at \$9.5. Some 90,000 households (including elderly, people with disabilities, low income and single parent families) under its concession schemes will not be subject to the basic tariff adjustment. To further reduce the impact of tariff increase on its customers, Towngas has committed to freezing the basic tariff in the coming two years after the current

¹ 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).

round of tariff adjustment.

5. Separately, Towngas introduced natural gas as part of the feedstock to produce town gas in October 2006. Since then, fuel savings amounting to some \$17 billion have been passed on to customers. Despite the increase in international crude oil price in the past two years, the effective town gas price in the first half of 2019 was still lower than that in September 2006, just before the introduction of natural gas, while the cumulative inflation rate during the period was over 40%.

BACKGROUND

6. 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.

7. Towngas has raised its basic tariff six times since the inception of the ICA in 1997. The last time was an increase of 4.6% in August 2017.

Environment Bureau
June 2019