

**For discussion
on 4 November 2019**

Legislative Council Panel on Financial Affairs

Electricity Charges Subsidy

PURPOSE

To counter the challenging external and local economic environment, the Financial Secretary announced in August 2019 a package of measures to support enterprises, safeguard jobs and relieve people's financial burden, including the provision of a one-off electricity charge subsidy of \$2,000 to each eligible residential electricity account¹ (the “new subsidy scheme”). This note sets out the key features of the new subsidy scheme.

PROPOSAL

2. We propose to grant each eligible residential electricity account a subsidy of \$2,000. We further propose that this subsidy together with the existing subsidy schemes² can be used to cover billed electricity charges of eligible households up to 31 December 2022 or the close of the account, whichever is earlier.

JUSTIFICATION

3. The objective of the new subsidy scheme is to relieve people’s financial burden. At present, about 20% of households in Hong Kong pay an average of not more than \$150 a month for electricity charges. The new subsidy scheme will benefit such households most as it will cover their electricity charges for at least one year.

4. We propose to inject a subsidy of \$2,000 into each eligible residential electricity account in 12 instalments under the new subsidy scheme. Specifically, we

¹ A “residential electricity account” refers to an account to which domestic tariff applies. In determining the applicable tariff, the electricity companies will consider the nature of occupancy. The companies will process the opening and termination of accounts as well as other account-related matters in accordance with their established mechanisms.

² The existing subsidy schemes refer to the electricity charges subsidy schemes implemented in 2008, 2011, 2012 and 2013, the details of which are set out at paragraph 11 of this paper.

will credit \$160 to each residential electricity account with CLP Power Hong Kong Ltd. or The Hongkong Electric Co., Ltd. in existence on the first day³ of each month for 11 consecutive months and \$240 in the 12th month. Subject to funding approval by late November 2019, the first instalment will be injected on 1 January 2020. The credits can only be used for the purpose of offsetting billed charges for electricity consumed under the same account.

5. In 2008, a commitment of \$8.8 billion was first created to provide electricity charges subsidy to eligible residential households. In 2011, 2012 and 2013, the Government provided further rounds of electricity charges subsidy, thereby increasing the commitment to \$22.3 billion.

6. As with the existing subsidy schemes, we propose that under the new subsidy scheme, any unused credit in a month can be carried forward to cover billed electricity charges under the same account. The existing subsidy schemes were approved by the Finance Committee (“FC”) for operation until 30 June 2016, which was subsequently extended twice to 30 June 2020. With the new subsidy scheme, we propose to further extend the expiry date so that the remaining credits of the existing subsidy schemes (if any) and the freshly injected credits under the new subsidy scheme can be used to cover billed electricity charges up to 31 December 2022 or the close of account⁴, whichever is earlier. This will allow the new subsidy scheme to be valid for three years from the first credit. We will review the need to extend the expiry date of any unused credit as and when necessary.

³ Where a change of account holder occurs on the first day of the month, the customer taking up the account will be entitled to the credit. In respect of any one meter, only one account will be eligible for the subsidy in a month.

⁴ Residential electricity account holders living in (i) public rental housing (“PRH”) units of the Hong Kong Housing Authority (“HA”) or the Hong Kong Housing Society (“HS”); and (ii) squatters, who will be moved to PRH units of HA/HS owing to redevelopment and major repairs/improvement works and the Government’s development clearance exercises respectively, will be allowed to carry forward their unused subsidy to their new electricity accounts on removal up to 31 December 2022. For (i), this will be provided for under the existing commitment of Item 835 Supplementary electricity charges subsidy for eligible public housing tenants affected by redevelopment, major repair or improvement works under Head 147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch) Subhead 700 General non-recurrent. For (ii), this will be provided by a separate commitment to be created under delegated authority.

FINANCIAL IMPLICATIONS

7. There were totally about 2.76 million residential electricity accounts maintained by the two electricity companies in late September 2019. With the estimated growth pattern⁵, the subsidy for the new scheme to be granted in 2020 will be around \$5.6 billion. Accordingly, we propose to increase the existing commitment of Item 881 Electricity charges subsidy for eligible residential accounts under Head 147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch) Subhead 700 General non-recurrent by \$5.6 billion from \$22.3 billion to \$27.9 billion.

8. Apart from the existing subsidy schemes, the Government currently credits \$50 to each eligible residential electricity account with the two electricity companies in existence on the first day of each month for 60 consecutive months, commencing from 1 January 2019, under the Electricity Charges Relief Scheme. Unused subsidy under the existing subsidy schemes and relief under the Electricity Charges Relief Scheme will be utilised first in offsetting billed charges. Subsidy under the new scheme will be utilised after both unused subsidy under the existing subsidy schemes and relief under the Electricity Charges Relief Scheme are exhausted or expired.

9. As the Government will pay the electricity companies as and when the billed charges become due, the payment to the companies will spread over the years. On the assumption that the first instalment under the new scheme will be injected on 1 January 2020, the estimated cash flow of the proposed commitment is as follows:

Financial year	\$ billion
Amount spent up to 31 March 2019	21.74
2019-20	0.97
2020-21	4.29
2021-22	0.58
2022-23	0.29
Total	27.87

The actual cash flow for each year and the final requirement will depend on factors including the number of eligible residential electricity accounts and their electricity consumption.

⁵ Drawing on the data for 2016-2018, the number of electricity accounts was estimated to grow at about 1.3% per annum.

CONTROL MECHANISM

10. As with the existing subsidy schemes, we will set out in proper documentation the operating parameters of the subsidy and the obligation of parties involved for compliance by the electricity companies. As part of the control mechanism, the companies will continue to be required to provide the Government with monthly reports on the number of accounts eligible for the subsidy, the amount of credits used in the month and the amount of unused credits carried forward. They will also be required to provide the Government with confirmation from external auditors that the Government has been charged according to the terms of the scheme.

BACKGROUND

11. The FC approved on 23 May 2008 a commitment of \$4.4 billion for providing each eligible residential electricity account with a subsidy of \$1,800 vide FCR(2008-09)18. The FC subsequently agreed on 18 July 2008 vide FCR(2008-09)41 to increase the subsidy to \$3,600 and to raise the commitment to \$8.8 billion. On 10 June 2011, 1 June 2012 and 7 June 2013, FC agreed vide FCR(2011-12)21, FCR(2012-13)30 and FCR(2013-14)14 to further provide each eligible residential electricity account with a subsidy of \$5,400 in total and to increase the commitment to \$22.3 billion. As at 31 March 2019, the commitment had an unspent balance of about \$0.6 billion.

12. On 15 August 2019, the Financial Secretary proposed to grant each eligible residential electricity account a subsidy of \$2,000 to help relieve people's financial burden.

WAY FORWARD

13. Subject to Members' views, we will seek funding approval from FC as soon as practicable for implementation of the proposal.

Financial Services and the Treasury Bureau
October 2019