

For information on
21 June 2024

**LEGISLATIVE COUNCIL
PANEL ON ENVIRONMENTAL AFFAIRS**

**Tariff Adjustment of
The Hong Kong and China Gas Company Limited**

PURPOSE

This paper briefs Members on the plan of The Hong Kong and China Gas Company Limited (Towngas) to raise (i) the basic tariff by 1.3 cents to 28.5 cents per megajoule (MJ)¹; and (ii) the fixed monthly maintenance charge² (MMC) by \$0.5 to \$10 respectively with effect from 1 August 2024. Towngas also decided to freeze the basic tariff and the MMC in the coming two years.

BACKGROUND

2. Towngas operates in a competitive energy market environment whereby consumers may choose to use gas or electricity for cooking and/or water-heating. While Towngas is currently not subject to any price or profit regulation by the Government, it has entered into an Information and Consultation Agreement (ICA) with the Government voluntarily since 1997 to increase transparency in its tariff setting mechanism, and provide the Government with opportunities to hold discussions with Towngas on its justifications for tariff adjustments. Pursuant to the ICA, Towngas is required to consult the Government three months in advance of any tariff adjustment, and upon requests, brief the Legislative Council Panel on Environmental Affairs and the Energy Advisory Committee on such adjustment.

3. Towngas has raised its basic tariff eight times and MMC once since the inception of the ICA in 1997. The basic tariff was last raised in August 2022 by 1.15 cents per MJ, representing an increase of 4.4%, while the MMC was last raised in 1998 by \$0.5, representing an increase of 5.6%.

¹ The calculation is based on gas consumption of 1 000 MJ per month (gas consumption of around 80% of Towngas' residential customers is at 1 000 MJ per month or below).

² Fixed MMC is applicable to residential customers only.

TARIFF ADJUSTMENT

4. Towngas plans to raise its basic tariff with effect from 1 August 2024, by 1.3 cents per MJ, representing an increase of 4.8%, which is equivalent to a 4.2% increase in the average effective tariff (inclusive of both basic tariff and fuel cost adjustment) in 2023. It also plans to raise its MMC with effect from 1 August 2024, by \$0.5 to \$10, representing an increase of 5.3%.

5. Towngas explains that the tariff adjustment aims at coping with the rising operating costs pushed by inflation, in particular, the increase in manpower costs due to the shortage of technicians in the gas industry; as well as the substantial capital investment in the coming years. The estimated cumulative inflation rate since the last tariff adjustment in August 2022 till 2024 is around 5%³. As regards capital investment, Towngas has continued to invest in its infrastructure to maintain safe and reliable services and supply gas to newly-developed areas, with its actual investments totalling around \$1.9 billion between 2022 and 2023. Taking into account the new investment projects, including the production capacity enhancement at the Tai Po Plant and sustainable green energy development projects⁴, Towngas expects its capital investment for 2024 and the following five years to reach \$9.8 billion in total.

6. Towngas estimates that following this adjustment of the basic tariff and the MMC, about 70% of its residential customers will pay no more than \$10 extra for their gas bill each month. Some 43 000 households (including elderly persons, people with disabilities, low income and single parent families) under its concession schemes will not be subject to the basic tariff adjustment⁵ and will continue to enjoy the MMC waiver. To further reduce the impact of tariff increase on its customers, Towngas has decided to freeze the basic tariff and the MMC in the coming two years after the current round of adjustment. To provide further relief for needy families as well as small and medium-sized enterprises (SMEs), Towngas has introduced various targeted support measures including a donation of 10 000 sets of Smart Controllers and Smart Meters to families in need, as well as a sponsorship of \$50 million for SMEs to upgrade their energy-efficient and green equipment.

³ The projection is made with reference to the cumulative increase in the Composite Consumer Price Index (CCPI) from August 2022 to December 2023 (3.2%) and the projected headline inflation rate in 2024 (2.4%) announced in 2024-25 Budget Speech.

⁴ Sustainable green energy development projects include the set-up of Hydrogen Extraction System in Hydrogen Refuelling station for Hydrogen Fuel Cell Buses and the South East New Territories (SENT) Landfill Green Hydrogen Production project.

⁵ The basic tariff for households under concession schemes has remained frozen at the 2008 level for 16 years.

7. Separately, Towngas introduced natural gas as part of the feedstock to produce town gas in October 2006. Since then, fuel savings amounting to some \$22 billion have been passed on to customers. Despite international crude oil price being on the high side, the average effective tariff in 2023 was only 10.7% higher than that in September 2006 just before the introduction of natural gas, while the cumulative inflation rate over the same period of time was around 57%.

ADVICE SOUGHT

8. Members are invited to note the content of this paper.

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