

LCQ5: Annual Tariff Review

Following is a question by the Hon Fred Li and a reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (November 5) (Translation):

Question:

In 2000, the Hong Kong Electric Company Limited ("HEC") increased the basic tariff. As Hong Kong's economy at that time had not fully recovered, the Government agreed to HEC's proposal to increase the Fuel Clause Rebate in order to maintain the overall tariff. However, such rebate would be entered into the Fuel Clause Account of HEC's balance sheet. At the end of last year, the balance in the Account was \$1,235 million. According to the agreement reached between the Government and HEC last year, HEC would gradually recover the amount from its customers by way of an additional surcharge so as to recover the Account balance in full by the end of 2008. In this connection, will the Government inform this Council:

- (a) when HEC put forward and when the Government approved the proposal to increase the Fuel Clause Rebate for the year 2000; the time until which the rebate would last; and whether the effect of such an arrangement was only to allow HEC customers to hold over payment for the increased portion of the tariff and make such payments in arrears in the subsequent years;
- (b) whether it has assessed if HEC's failure to set the Fuel Clause Rebate or Surcharge in accordance with fuel cost variations was already a breach of the SCA; and
- (c) of the reasons for allowing HEC to build up the balance in the Fuel Clause Account to \$1,235 million; the estimated annual amount which HEC would recover from its customers from 2004 to 2008; and, as Hong Kong's economy has yet to recover and the unemployment rate is high, whether it will request HEC to postpone the recovery of the balance in the Account; if it will not, the reasons for that?

Reply:

Madam President,

My reply to the three-part question raised by the Hon Fred Li is as follows -

(1) The Annual Tariff Review in late 1999 indicated that, according to the provisions in the Scheme of Control Agreement (SCA), HEC had to increase their tariff for the year 2000. In view of the then prevailing economic situation in Hong Kong, and to avoid increasing the burden on their consumers, the HEC proposed -

(i) to increase the Fuel Clause Rebate for 2000 from 8.5 cents per unit to 15.2 cents per unit; and

(ii) to reduce the debit balance thus accumulated in the Fuel Clause Account by gradually adjusting downward the Fuel Clause Rebate during the period of the 1999-2004 Financial Plan.

Having regard to the fact that consumers would not have to pay a higher net tariff rate in 2000 and that the HEC would not earn more than the return permitted under the SCA, the Government agreed to HEC's proposed arrangement for the Fuel Clause Account. The Executive Council approved the arrangement in May 2000 in the context of examining the 1999-2004 Financial Plan and the tariff for the year 2000.

(2) The arrangement was consistent with the terms of the SCA. Under the SCA, the Basic Tariff includes a standard fuel cost, and fuel cost is borne by consumers. Through the Fuel Clause Account mechanism, the difference between the standard fuel cost and the actual fuel cost will be returned to or recovered from the consumers each year by means of a Rebate or a Surcharge.

The Fuel Clause Rebate or Surcharge for each year is determined during the Annual Tariff Review. Over the years, in deciding on the Rebate or Surcharge, we take into account various factors, including the fuel cost differential, the balance in the Fuel Clause Account as well as the need to stabilise tariff. The Fuel Clause Surcharge or Rebate in a year may therefore be different from the fuel cost differential for that year, and there could be a credit or a debit balance in the Fuel Clause Account.

(3) Under the Fuel Clause Account mechanism, the balance in the account is a running figure. HEC reduced the Fuel Clause Rebate by 5.9 cents and 2.2 cents per unit in 2001 and 2002 respectively, so as to gradually reduce the debit balance in the Fuel Clause Account. However, since fuel prices increased in both 2001 and 2002, and the fuel cost differentials could not be fully reflected in the Fuel Clause Rebate, the debit balance in the Fuel Clause Account as at end 2002 amounted to \$1.235 billion. With fuel prices stabilizing in the first half of 2003 and a further reduction in the Rebate by one cent per unit this year, HEC's 2003 Interim Report indicates that the debit balance in the Fuel Clause Account at the end of June this year has been brought down to \$1.184 billion.

As mentioned earlier, the tariff for each year, including the Fuel Clause Rebate or Surcharge, will be determined in the Annual Tariff Review, having regard to all relevant data and the objective of stabilizing tariff. At the time of the Tariff Review in late 2002, the Government accepted HEC's proposal to defer the recovery of the Fuel Clause Account deficit to beyond 2004 to be completed before the expiry of the current SCA in 2008, in order to alleviate the burden on consumers. This arrangement contributed to the tariff freeze in 2003.

The tariff, including the Fuel Clause Rebate or Surcharge, to be charged by HEC during 2004 to 2008, will be determined annually in accordance with established arrangements under the SCA.

Ends/ Wednesday, November 5, 2003