

**For information
on 24 March 2006**

**LEGISLATIVE COUNCIL
PANEL ON TRANSPORT**

**Operation of Dedicated LPG Filling Stations
after Implementation of New Pricing Adjustment Mechanism**

PURPOSE

Further to the meeting of the Panel on 24 February 2006, this paper reports on the operation of dedicated LPG filling stations after the implementation of the new pricing adjustment mechanism from 1 March to 15 March as requested by the Panel.

BACKGROUND

2. The operation of dedicated LPG filling stations and pricing adjustment mechanism was discussed at the Panel meetings on 16 December 2005, 20 January 2006 and 24 February 2006. Please see LC Papers No. CB(1)503/05-06(3) and CB(1)635/05-06(1) for details.

3. The objective of the new monthly pricing adjustment mechanism is to timely reflect the movement of LPG international prices in the LPG pump prices of dedicated LPG filling stations with a view to resolving the queuing problem and the associated traffic and noise problems caused to residents in the vicinity of the dedicated stations.

4. Upon endorsement of the Panel at its meeting on 20 January 2006, Government introduced the new pricing adjustment mechanism on 1 February 2006. The first adjustment date according to new mechanism was 1 March 2006 which reflected the LPG international price in February 2006. Prior to 1 March 2006, price adjustment was made according to the old arrangement, i.e. reflecting the averaged international LPG prices for the preceeding six months.

OPERATION OF DEDICATED STATIONS UNDER THE NEW PRICING ADJUSTMENT MECHANISM

Prices at Dedicated and Non-dedicated Stations

5. Under the new pricing adjustment mechanism, the LPG ceiling prices for the dedicated stations in March 2006 were calculated to reflect the movement of LPG international price in February 2006. The ceiling prices for March 2006 are in the range of \$3.41/L to \$3.79/L, an increase of \$0.64/L compared with the prices in February 2006. The upward adjustment reflected the increase of LPG International price in February (\$2.67/L) in comparison with the average LPG international price from July to December 2005 (\$2.03/L). Taking into account the need to remain competitive, operators of dedicated stations have generally set the pump prices of LPG at dedicated stations below the ceiling prices –

Filing Stations	Pump Price in February 2006 (HK\$/L)	Pump Price in March 2006 (HK\$/L)	Ceiling Price in March 2006 (HK\$/L)
CRC Dedicated Stations			
Kwun Tong	2.87	3.50	3.51
Tai Po	2.87	3.50	3.51
Kwai Chung	2.90	3.50	3.54
Kowloon Bay	2.90	3.50	3.54
Sheung Wan	2.87	3.50	3.51
Ma On Shan	2.77	3.41	3.41
Yuen Long	2.77	3.41	3.41
ECO Dedicated Stations			
West Kowloon	3.15	3.55	3.79
Chai Wan	3.15	3.55	3.79
Tuen Mun	2.92	3.55	3.56
Mei Foo	2.92	3.55	3.56
Wan Chai	2.91	3.55	3.55

6. On average, the LPG pump prices at non-dedicated stations are still slightly higher than those of dedicated stations. The pump prices of all existing 55 LPG filling stations are shown at **Annex A**.

7. At present, LPG price per litre at dedicated LPG filling stations is still 45 per cent lower than the price of diesel with equivalent energy output –

		November 2000	March 2006
(a)	Diesel price	\$6.28/L	\$8.26/L
(b)	Equivalent diesel price for taxi as calculated with an energy efficiency ratio of 9:7 for diesel to LPG	\$4.88/L	\$6.45/L
(c)	LPG price at dedicated LPG filling station	\$2.03/L	\$3.51/L
(d)	Saving on fuel cost per litre [i.e. (b) – (c)]	\$2.85/L	\$2.91/L
(e)	Reduction in fuel cost for an usage of 1,000 litre per month	\$2,850	\$2,910

Queuing Situation at Dedicated Stations

8. After the implementation of the new pricing adjustment mechanism, the distribution of vehicles refilling at the 12 dedicated and 43 non-dedicated LPG filling stations is shown in the following table –

	Vehicles Refilling at Dedicated Stations	Vehicles Refilling at Non-dedicated Stations
Before implementation of new mechanism	74%	26%
After implementation of new mechanism	63%	37%

9. It can be observed that the skewed balance between supply and demand has been improved. Both our on-site inspections and the reports received from dedicated stations indicated that the queuing time at dedicated LPG filling stations has been substantially reduced since the new mechanism took effect on 1 March.

10. After the implementation of the new pricing adjustment mechanism, the number of complaints against dedicated stations has dropped substantially from 91 cases in February to just one case up to 15 March.

LPG CEILING PRICES AT DEDICATED STATIONS

11. It is however noted that there is some lingering misunderstanding as reflected in the media reports on the price setting mechanism for dedicated stations. The opportunity is taken to address the misunderstanding.

Pricing Formula at Dedicated Stations

12. Under the Design, Build and Operate contracts for the dedicated LPG filling stations, a pricing formula ($P = A + B$) determines the LPG ceiling price (P) for dedicated stations which comprises two elements, namely the LPG international price (A) and LPG operating price (B).

13. According to the contracts, the LPG international price (A) is a pass-through element. It is calculated from the monthly contract prices of LPG ex Saudi Arabia listed in the Petroleum Argus LPG World publication. The information in the Petroleum Argus LPG World publication is available in the public domain.

14. The Petroleum Argus LPG World publication normally announces the Saudi contract prices of LPG in US dollar per tonne at the beginning of each month. The LPG international price (A) in HK\$/litre is then converted from US\$/tonne when the data on monthly US\$/HK\$ exchange rates published by Census & Statistics Department are available by the middle of the month.

15. The operating price (B) was submitted by the operators during the tender stage, which covers the proposed operating cost plus profit. Apart from the yearly adjustment according to the movement of the Composite Consumer Price Index, the operating price is fixed throughout the 21-year contractual period.

Expected Decrease of LPG Ceiling Price in April

16. As mentioned in paragraph 14 above, the Saudi contract prices of LPG in US dollar per tonne for March had already been published early this month which showed that the LPG international price had dropped by about 40 cents per litre. Under the new price adjustment mechanism, it is not possible for the operators to increase prices quickly and lower prices slowly. Hence, it follows that the LPG ceiling price at dedicated stations for April would also drop by about 40 cents per litre, reflecting the change of LPG international price in March. The exact figure would be worked out when the US\$/HK\$ exchange rates data are available in mid March and then the operators will submit the LPG ceiling price calculations for verification by Government by end March..

Benefits of Nil Land Premium Transferred to the Taxi/Light Bus Trades

17. In year 2000, Government established a policy to provide financial subsidies (taxi \$40,000/light bus \$60,000) to encourage the trades to use LPG taxis and light buses in order to improve the air quality. In addition, the Government further exempt the LPG duty and provide land at nil premium for dedicated LPG filling stations. At the time when the dedicated LPG filling stations at nil land premium were tendered out, tenderers competed primarily on the lowest operating price (B). Hence the LPG pump prices of the dedicated stations do not include any element to recoup land premium.

18. The waiver of land premium enabled the dedicated stations, when they commenced operation in November 2000, to sell LPG at prices far lower than the non-dedicated stations. Market competition worked progressively to drive down prices at non-dedicated stations. Twelve months after the dedicated stations commenced operation, the LPG pump price at non-dedicated stations had been reduced drastically by about \$1/L (see **Annex B**) and stayed reasonably close to prices at non-dedicated stations ever since except when there was significant price-lagging under the old adjustment mechanism. It is clear that the transport trades have benefited directly from the waiver of land premium.

Price Differential between Dedicated and Non-dedicated Stations

19. The existence of dedicated stations has restrained price hikes at non-dedicated stations. To compete with dedicated stations, the LPG

pump prices at non-dedicated stations need to be set at a competitive level. As the operators of non-dedicated stations could make profits through the sale of diesel and petrol (the prices of which are not regulated) and can utilise the common staff and facilities at the stations for all products, their pricing of LPG could therefore be more flexible. Therefore, although there is no waiver of land premium for non-dedicated stations, their pump prices are usually set close to those of dedicated stations, except at the time when there is significant price-lagging effect at dedicated stations under the old pricing adjustment mechanism.

WAY FORWARD

20. The Electrical and Mechanical Services Department (EMSD), Environmental Protection Department and Transport Department will meet quarterly with the operators of dedicated stations and the taxi and light bus trades to gather feedbacks on the operation of dedicated stations. EMSD will continue to closely monitor the operation of dedicated LPG filling stations. In addition, EMSD will continue to announce LPG international price and LPG ceiling price of each dedicated station on a monthly basis so the trades can monitor the price adjustment at dedicated stations.

Electrical and Mechanical Services Department
15 March 2006