

Pricing Adjustment Mechanism for Dedicated LPG Filling Stations

Background

There have been substantial fluctuations in LPG international prices since September 2005. While LPG prices at non-dedicated LPG filling stations have been adjusted upwards, those at dedicated LPG filling stations could not be changed until the due date for the half-yearly ceiling price adjustment, i.e. 1 February 2006. The price differential between dedicated LPG filling stations and non-dedicated LPG filling stations has become increasingly significant, leading to a huge increase in demand for filling services at dedicated LPG filling stations and thus long queues of LPG vehicles at these stations. The situation has not only resulted in long queuing time for LPG vehicle drivers at dedicated LPG filling stations, but also brought traffic and noise problems to residents in the vicinity. Several district councils have expressed grave concern about the situation.

Savings of Fuel Expenses by the Transport Trade

2. In year 2000, Government established a policy to provide financial subsidies (taxi \$40,000/light bus \$60,000) to encourage the transportation trade to change 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 of nil premium for setting up dedicated LPG filling stations to restrain the operation cost on using LPG and to reduce the fuel expense of the trade. At the time when the dedicated LPG filling stations at nil land premium were tendered out, the tenderers competed primarily for the lowest operating price (sum of operating expenses and profits). Hence the **prices of the dedicated stations do not include any element to recoup land premium.**

3. In fact, since the introduction of auto-LPG in 2000, the trades have been able to pay less for fuel. Prices of LPG per litre at dedicated LPG filling stations, in particular, are about 58% lower than the equivalent diesel price (see Table 1 below).

		November 2000	December 2005
(a)	Diesel price	\$6.28/L	Approx. \$8/L
(b)	Equivalent diesel price as calculated with an energy efficiency ratio of 9:7 for diesel to LPG	\$4.88/L	\$6.22/L
(c)	LPG price at dedicated LPG filling station	\$2.03/L	\$2.57/L
(d)	Saving on fuel cost per litre [i.e. (b) – (c)]	\$2.85/L	\$3.65/L
(e)	Reduction in fuel cost for an usage of 1,000 litre per month	\$2,850	\$3,650

4. The contracts between the Government and the operators of dedicated LPG filling stations stipulate that a review of the pricing adjustment mechanism shall be conducted at five-yearly intervals. Hence the recent review of the pricing adjustment mechanism after the expiry of the five-year period is **in line with the contract terms**. The queuing of LPG vehicles at dedicated LPG filling stations is due to the time-lagging effect of LPG prices at dedicated LPG filling stations. To resolve the problem, it is necessary to introduce a new pricing adjustment mechanism so that the transport trade could continue to enjoy lower LPG prices while the LPG suppliers could continue to provide efficient services under reasonable operation conditions.

5. Under the new pricing adjustment mechanism, the two elements of the pricing formula (i.e. LPG international prices and LPG operating prices bid by the contractors) would remain unchanged. As such, the fuel cost of drivers would remain neutral over time (see **Annex A**). Only the adjustment frequency of LPG prices at dedicated LPG filling stations is changed from once every six months to once a month. Under the new mechanism, the operators of dedicated LPG filling stations should raise or lower their LPG prices on a monthly basis according to the movement of LPG international prices. **The operators cannot raise prices quickly and lower prices slowly**. The Government would announce LPG international prices on a monthly basis so that **the trades can monitor the pricing adjustment at dedicated LPG filling stations**.

Operating Conditions of Dedicated LPG Filling Stations

6. There are currently a total of 54 LPG filling stations in Hong Kong (One more non-dedicated station has commenced operation since 10.1.2006). Among them, 12 are dedicated LPG filling stations of which 7 are operated by the China Resources Petrochems (Group) Co. Ltd. (CRC) and the other 5 are operated by ECO Energy Co. Ltd. (ECO). The remaining 42 are non-dedicated LPG filling stations with no control on LPG pump price.

7. At present, about 74% of LPG vehicles are driven to the 12 dedicated filling stations for LPG refilling while the remaining 26% of LPG vehicles are refilled at the 42 non-dedicated LPG filling stations. The LPG pump prices at CRC dedicated LPG filling stations are the lowest among all the LPG filling stations in Hong Kong. The 7 CRC dedicated LPG filling stations are originally designed to support 10,000 LPG vehicle fillings per day and now they are supplying up to 15,000 fillings a day. This situation is not sustainable as their LPG road tanker fleet, their oil terminal at Tsing Yi and even their LPG supply chain are being stretched to the limit.

8. Government had liaised with CRC and ECO with a view to ensuring a reasonable level of LPG filling service. Despite the prevailing constraints, both CRC and ECO undertook to do their best to deploy as many as possible of their filling nozzles at dedicated LPG filling stations, and in any case not less than 70% during busy hours, with a view to minimising the queuing time for LPG vehicles. Both companies will also increase their LPG road tanker delivery frequency to dedicated LPG filling stations subject to safety and maintenance requirements.

Consultation with the Taxi and Light Bus Trades

9. Since April 2005, TD has conducted initial consultations with the trades on the LPG ceiling price adjustment mechanism for dedicated LPG filling stations. A joint departmental working group comprising representatives of EMSD, EPD and TD met on 30 and 31 December 2005 with the trades again to discuss the Government's plan to introduce a new pricing adjustment mechanism with effect from 1 February 2006. The representatives of the taxi and light bus trades raised no objection to the introduction of the new pricing adjustment mechanism on 1 February 2006. Please see notes of meeting with the transport trade at **Annex B**. The Transport Department holds regular meetings with the three Taxi Operations Conferences (Urban/New Territories/Lantau) and two Public Light Buses

Operations Conference (Red Minibuses/Green Minibuses) comprising representatives of trade associations of the taxi and PLB trades. It is on this basis we invited members of these Conferences to participate in the consultation on the pricing formula review.

New LPG Filling Stations

10. Three new LPG filling stations (two in Tung Chung and one in Tai Po Kau) are now being designed or constructed and are expected to come into service during 2006 and 2007. Their commissioning will further enhance the LPG filling network in the territory. It is Government policy in to specify LPG filling facilities in all future land sales for petrol stations, subject to safety requirements. The present LPG network can meet the existing demand for LPG vehicles. The government will keep in view the operation of the LPG filling network.

Environmental Protection Department
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