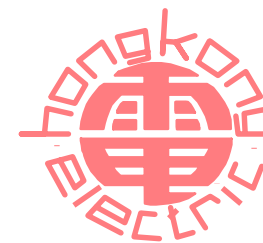


***The Hongkong Electric Co., Ltd.***  
香港電燈有限公司

Tariff Adjustment

2002

電費調整



# 二零零二年電費調整 Tariff adjustment for 2002

每度(仙)

Cents/kWh

. . . . .	2001	+/-	2002	Components
. . . . .	105.7	2.8	108.5	Average Basic Tariff
. . . . .	-9.3	2.2	-7.1	Fuel Clause Rebate
. . . . .	-0.2	0.1	-0.1	Rate Reduction Rebate
. . . . .	96.2	5.1 +5.3%	101.3	Average Net Tariff



## 各類客戶的電費調整

# Adjustment for different categories of customers

每度(仙)

Cents/kWh

.....	2001	+/-	2002	Categories of customers
.....	92.7	2.8 +3.0%	95.5	Domestic
.....	97.3	5.7 +5.9%	103.0	Non-Domestic
..	96.2	5.1 +5.3%	101.3	Average



# 照顧客戶

## Care for customers

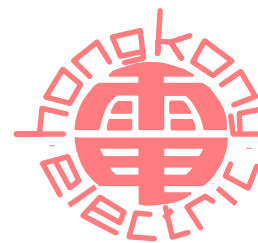
<ul style="list-style-type: none"><li>• . . . . . 500. . . . . 1,500. . . . .</li></ul>	<ul style="list-style-type: none"><li>• No tariff increase for 70% of all customers, both domestic (consuming up to 500 units per month) and non-domestic (consuming up to 1,500 units per month)</li></ul>
<ul style="list-style-type: none"><li>• . . . . . 150. . . . . . . . . .</li></ul>	<ul style="list-style-type: none"><li>• 20% domestic customers (consuming up to 150 units per month) no tariff increases for 5 years</li></ul>
<ul style="list-style-type: none"><li>• . . . . . 200. . . . . . . . . . . . . . .</li></ul>	<ul style="list-style-type: none"><li>• Special shareholders' fund to help elderly, disabled, single-parent families, and the unemployed in genuine need by giving up to 50% discount on first 200 units each month</li></ul>



## 二零零二年電費調整原因

# Reasons for tariff adjustment in 2002

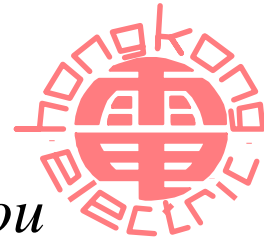
<ul style="list-style-type: none"><li>• . . . . .</li></ul>	<ul style="list-style-type: none"><li>• <b>The tariff increase is calculated in accordance with the provisions of the Scheme Of Control Agreement (SOC)</b></li></ul>
<ul style="list-style-type: none"><li>• . . . . . . . . . . . . . . .</li></ul>	<ul style="list-style-type: none"><li>• <b>The SOC is specifically designed to balance the interests of consumers and shareholders and ensure that HK has an adequate and reliable electricity supply</b></li></ul>
<ul style="list-style-type: none"><li>• . . . . .</li></ul>	<ul style="list-style-type: none"><li>• <b>Compliance with the SOC is therefore essential</b></li></ul>
<ul style="list-style-type: none"><li>• .</li></ul>	<ul style="list-style-type: none"><li>• <b>Local and international Fund Managers, who control hundreds of billions of US\$ of investment funds, have been very vocal in expressing serious concern over any attempt to deviate from the SOC due to short term political and/or economic circumstances</b></li></ul>



*“ I am writing this letter to express my concern over the recent press articles in Hong Kong suggesting that the Hong Kong Government may renege on its commitment to the Scheme of Control by not granting HKE a tariff increase if necessary.”*

*“ Would you be able to confirm to us that the HEC intends to apply for whatever tariff increase is necessary to ensure compliance with the terms of the SCA with the Hong Kong SAR Government?”*

*“ We believe the integrity and spirit of the Scheme of Control must be maintained. To this end can you please confirm that you are confident that the Scheme of Control will continue to exist in its current form in order that we can give our investor base the assurance that they are looking for.”*



- “ If my understanding of the Scheme of Control is correct could you please confirm that Hongkong Electric will indeed receive that tariff increase it is entitled to under the Scheme of Control (and therefore under Hong Kong law).”*
- “ I for one do not under-estimate the difficulty of the present economic environment, but renegeing on contractual obligations when the going gets tough will have far reaching consequences for the Hong Kong economy as a whole.”*
- “ One immediately starts to wonder about the sanctity of contract under Hong Kong SAR law. We have consistently taken the view that the SOC is a legally binding commercial contract. As such, our recommendations and investment advice are based on the continuation of the SOC until 2008. Many investors with substantial holdings of stock have invested in good faith on the basis.”*



## 二零零二年電費調整原因 Reasons for tariff adjustment in 2002

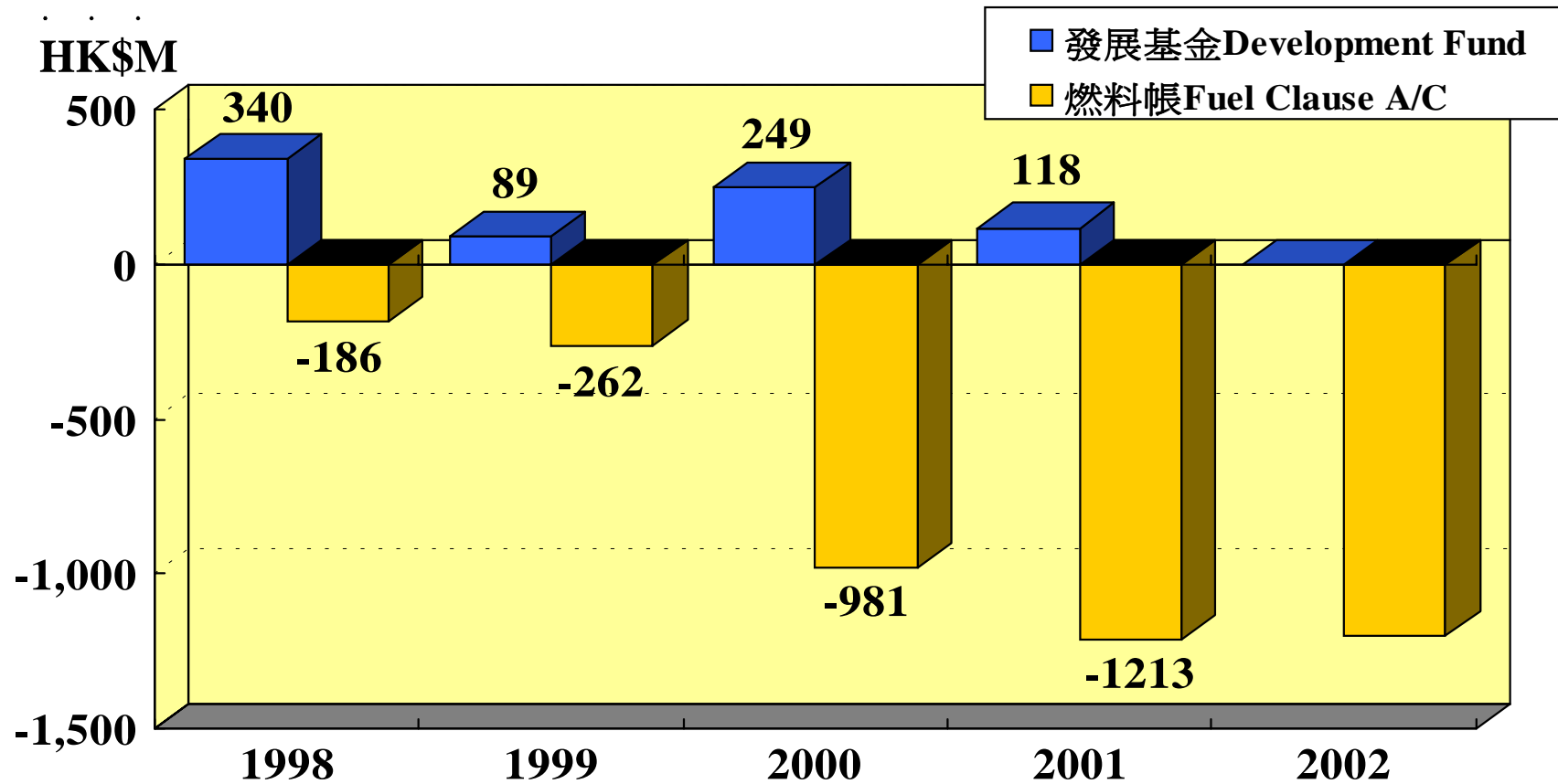
<ul style="list-style-type: none"><li>• . . . . . (2001. . . . . 4.1%); . . . . .</li></ul>	<ul style="list-style-type: none"><li>• <b>Continuing investment to ensure adequacy and reliability of supply (maximum demand increased by 4.1% in 2001 ) and related depreciation , maintenance and return will inevitably result in tariff pressure</b></li></ul>
<ul style="list-style-type: none"><li>• . . . . .</li></ul>	<ul style="list-style-type: none"><li>• <b>Low Development Fund balance, and therefore no possibility to offset a portion of the required tariff increase</b></li></ul>
<ul style="list-style-type: none"><li>• . . . . .</li></ul>	<ul style="list-style-type: none"><li>• <b>The Fuel Clause A/C is the mechanism by which fuel costs are passed on to consumers. As the debit balance in this A/C is already at a historic high and has reached the maximum balance approved in the Financial Plan, it cannot be used further for tariff smoothing</b></li></ul>





# 發展基金及燃料帳 . . . . .

## Development Fund and Fuel Clause Account have been used to stabilize tariff





# 持續提高生產力

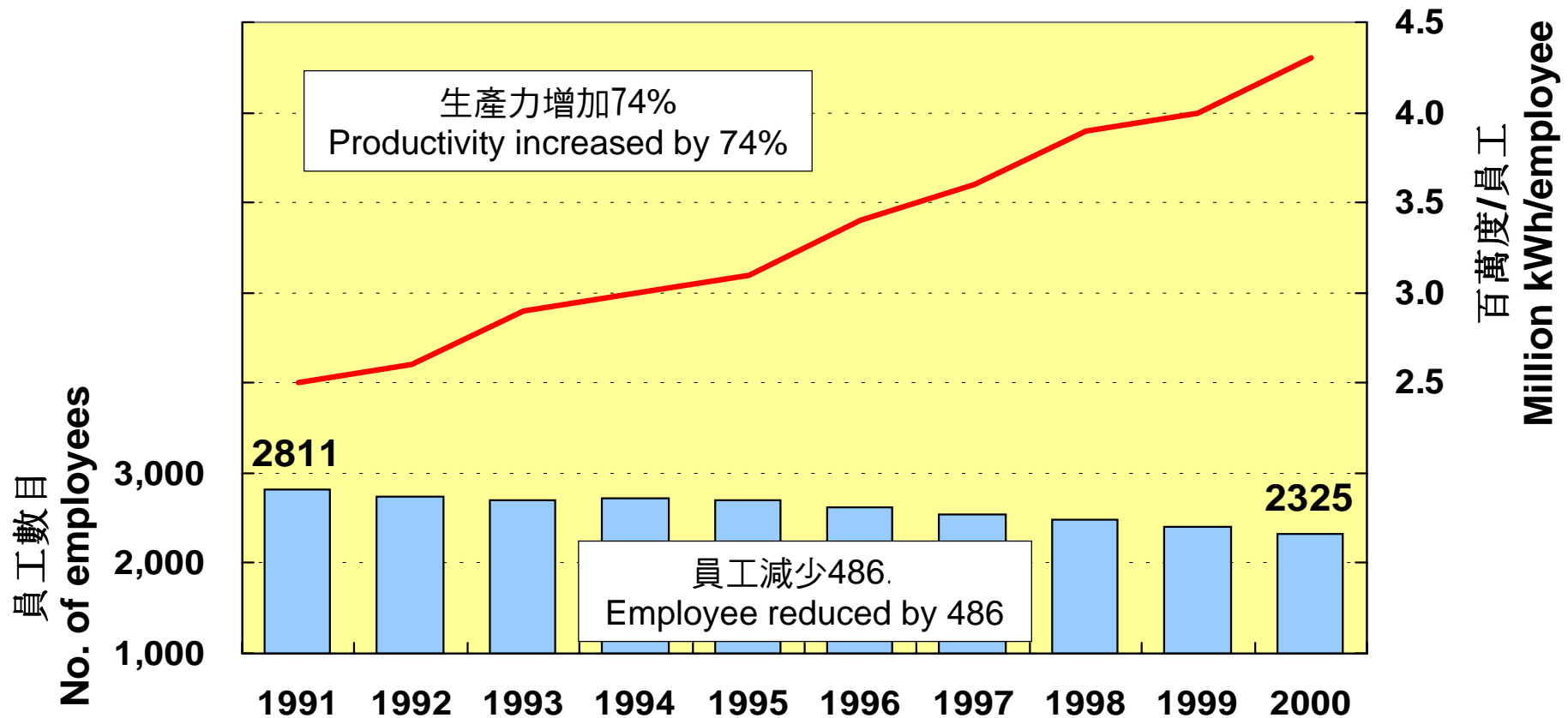
## Continuous improvement in productivity

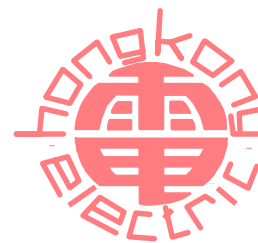
<p>• • • • •</p> <ul style="list-style-type: none"> <li>• • • • •</li> <li>• • • • •</li> <li>• • • • •</li> </ul>	<p><b>Capital expenditure</b></p> <ul style="list-style-type: none"> <li>• Strive for most cost effective contracts</li> <li>• Minimise contracting out of projects</li> <li>• Defer projects if possible</li> </ul>
<p>• • • • •</p> <ul style="list-style-type: none"> <li>• • • • •</li> <li>• • • • •</li> <li>• • • • •</li> <li>• • • • •</li> </ul>	<p><b>Operating costs</b></p> <ul style="list-style-type: none"> <li>• Use internal resources to replace external contracts</li> <li>• Automatic operation</li> <li>• Preventive maintenance</li> <li>• Improve operation and maintenance procedures</li> </ul>
<p>• • • • • 2002. • • • • •</p> <p>• 3.</p>	<p><b>The effect of these savings is to reduce the tariff requirement in 2002 by more than 3 cents</b></p>



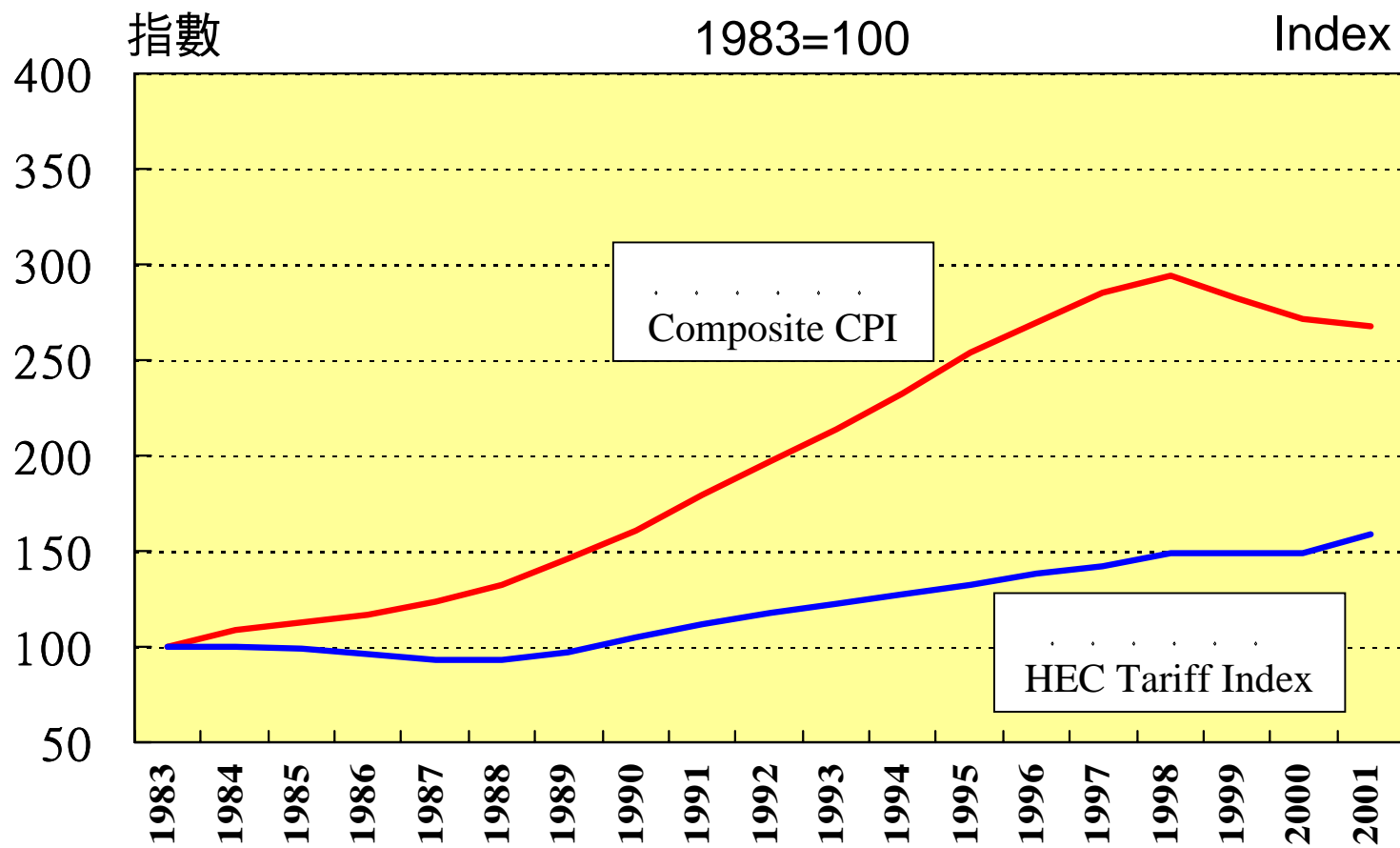
# 員工生產力不斷提高

## Continuous improvement in the productivity of employees





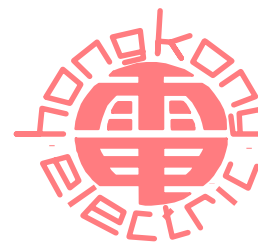
# 電費加幅低於 . . . Electricity tariff increases lower than CPI



.....  
.....  
.....

**-41%**

HEC's long term tariff trend lower than CPI

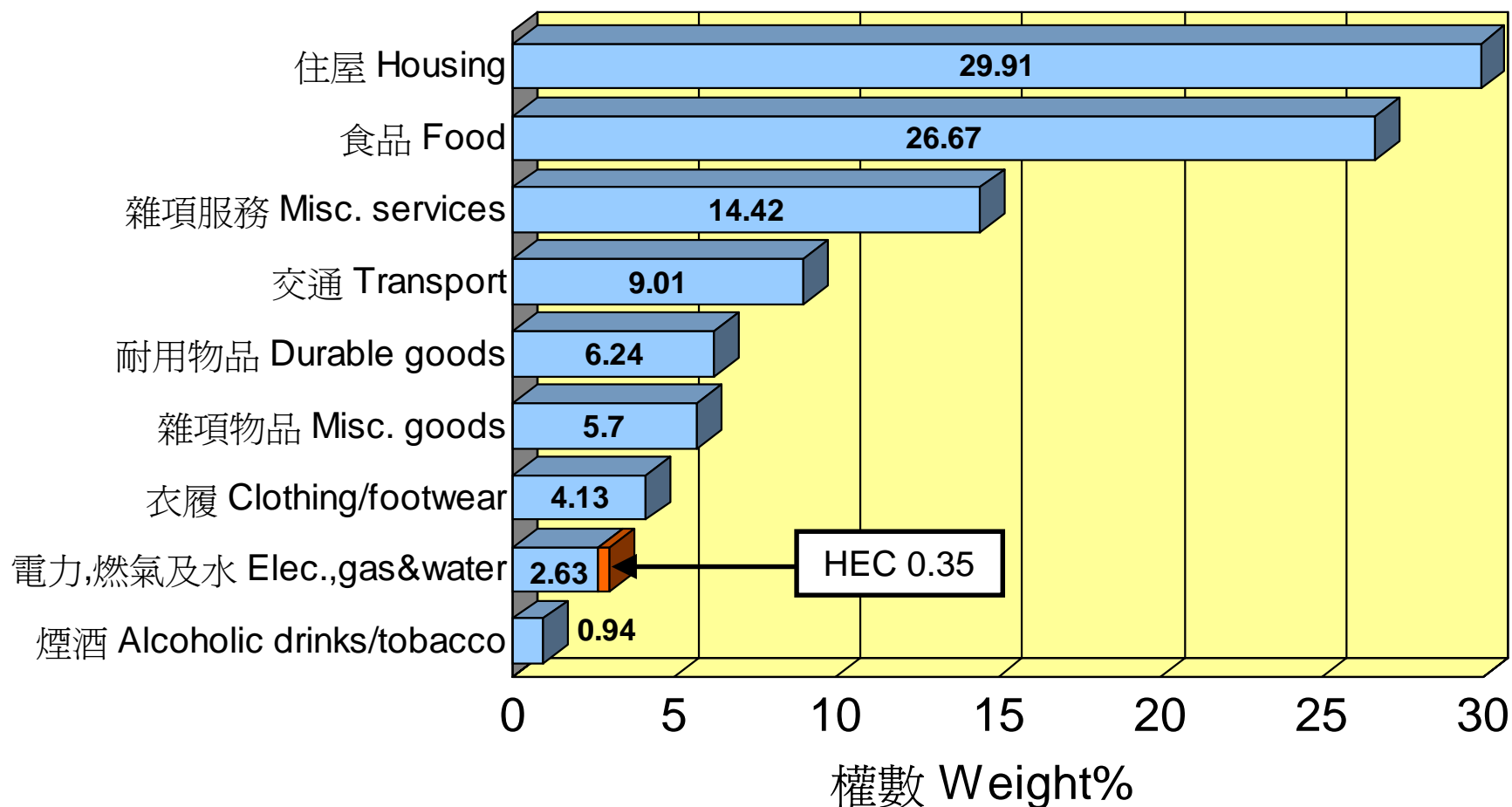


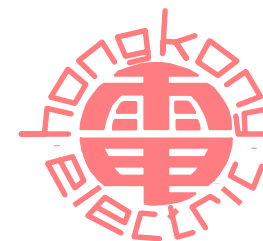
# 對綜合消費物價指數影響 . . . . . 0.019

## Effect on Composite CPI is only 0.019%

資料來源：香港政府統計處

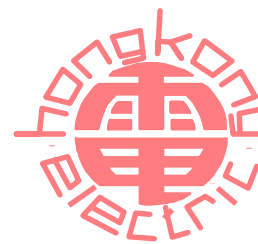
Source: Census and Statistics Dept., HK





## IN SUMMARY

<ul style="list-style-type: none"> <li>• 2002. . . . . 5.3</li> </ul>	<ul style="list-style-type: none"> <li>• Average net tariff increase of 5.3% required for 2002</li> </ul>
<ul style="list-style-type: none"> <li>• . . . . .</li> </ul>	<ul style="list-style-type: none"> <li>• This increase is the absolute minimum possible consistent with the SOC, having exhausted all tariff smoothing flexibility</li> </ul>
<ul style="list-style-type: none"> <li>• . . . . .</li> </ul>	<ul style="list-style-type: none"> <li>• 70% of all consumers will have no increase</li> </ul>
<ul style="list-style-type: none"> <li>• . . . . .</li> </ul>	<ul style="list-style-type: none"> <li>• Steps have been taken to cater for the elderly, the disabled, single-parent families, the unemployed</li> </ul>
<ul style="list-style-type: none"> <li>• . . . . .</li> </ul>	<ul style="list-style-type: none"> <li>• HEC continues to exercise stringent control over costs, both capital and revenue</li> </ul>



\*

**END**