



中華電力有限公司
CLP Power Hong Kong Limited

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23 December 2009

Ms. Debbie Yau
Clerk to Panel (Economic Development)
Legislative Council Secretariat
3rd floor, Citibank Tower, 3 Garden Road
Hong Kong

Our Ref: SPPD/260.9/L/91087/09-12/SHC/JCT/KLN
Your Ref: CB1/PL/EDEV

Dear Ms. Yau,

**Panel on Economic Development
Follow-up to Meeting on 8 December 2009**

I refer to your facsimile dated 9 December 2009 requesting for further information relating to CLP Power's tariff increase for 2010 and I am pleased to provide the information as attached.

Yours sincerely,

Richard Lancaster
Acting Managing Director – CLP Power

Encl. as stated.

shc:jct:klm

1) Financial Analysis

1a) Financial Details

	12 months ended 31 December		Unaudited 6 months ended 30 June
	<u>2007</u>	<u>2008</u>	<u>2009</u>
REVENUE			
SoC Revenue	29,331	30,386	12,684
COSTS			
Fuel	4,905	6,768	3,043
Non Fuel Costs	14,660	13,685	6,302
	19,565	20,453	9,345
PROFIT			
CLP Power's Net Return	7,652	7,549	2,925
FUND BALANCES			
Development Fund			
/ Tariff Stabilisation Fund	2,117	1,756	1,338
Fuel Clause Account	132	(800)	(324)

[Note – half year figures do not show full year (seasonal) picture for costs/revenues]

The 2009 full year figures will only be available in early 2010. For more details of the company's past financial performance, please refer to CLP's Annual Report.

1b) Analysis for 2010

For 2010, CLP needs to adjust the Basic Tariff to a more sustainable level from the current level. This is the first increase in more than a decade. The adjustment is necessary to enable CLP to fund projects that will help improve environmental performance in Hong Kong, including projects necessary to meet the Government's 2010 emissions reduction targets, and to support Hong Kong's infrastructure developments that will bring benefit to the community. Most of CLP's equipment and material to support these projects is imported and, as a result, rapidly rising prices this year for materials like aluminum and copper have exerted great pressure on CLP's costs. Our stringent cost control has enabled a lower rise than otherwise required and ensures that our tariff remains competitive amongst the world's major cities while maintaining our excellent supply reliability. The average 2.6% net tariff increase in 2010 is a result of an increase of 2.6¢/u in Basic Tariff and a reduction of 0.3¢/u of Fuel Clause Charge.

2) Supplementary Information for 2010

a) Commissioning of Emissions Control Project

The Emissions Control Project includes retrofitting the existing Castle Peak Power Station (CPPS) with Flue Gas Desulphurisation (FGD) facilities and Selective Catalytic Reduction (SCR) plant. The project is essential for CLP to meet the 2010 emissions targets imposed by the Government. The facilities will be commissioned in phases from 2009 to 2011. The station's yearly operation & maintenance cost would increase to cater for the use of limestone, catalyst and other consumables, etc.

b) Preparing for New Gas Supplies

CLP is now working with the Government of Hong Kong SAR, the National Development and Reform Commission and other Mainland parties on the implementation of the MOU on cross border energy supply. The gas supplies from China's West-to-East pipeline and LNG terminal, along with further pipeline gas supplies from the South China Sea are all crucial for CLP to maintain its supply reliability, meet the 2010 emissions targets and move forward to match community expectations on further improvements in air quality.

Preparatory work is now underway, with the Environmental Impact Assessment and preliminary engineering & other preparatory work in progress.

c) Supporting Hong Kong's Infrastructure Development and Other Major Development

To support infrastructure development in coming years, a number of projects are being implemented in our supply network. They include enhancement of our supply system and providing power for the construction and future operation of these developments. For example, in the Kai Tak development area a major 400kV Cable Diversion is required for site formation and new substations are being established at Eastern Road and Kai Tak Cruise Terminal. Also, a number of new substations and capacity expansion projects are planned in Diamond Hill, Kam Tin & West Kowloon for the railway development.

d) Meeting Load Growth, Maintaining Supply Reliability

In addition to work related to infrastructure development, ongoing investment in our electricity infrastructure is essential in order to meet Hong Kong's electricity demand in the years ahead. For example, new substations are to be established in HKUST, the Airport and Yue Man Square at Kwan Tong to provide adequate electricity for expansion and redevelopment. Besides establishing new substations, there are projects to increase supply capacity at existing sites. As well as meeting new electricity demand, investment to maintain supply reliability and replace old equipment is also essential.

e) Rising costs (Higher Energy and Commodity Prices)

The cost of key materials in the global market has risen significantly in the past few years. Since most of our material & equipment is imported from other countries, such a surge in prices has created significant cost pressures in our business.

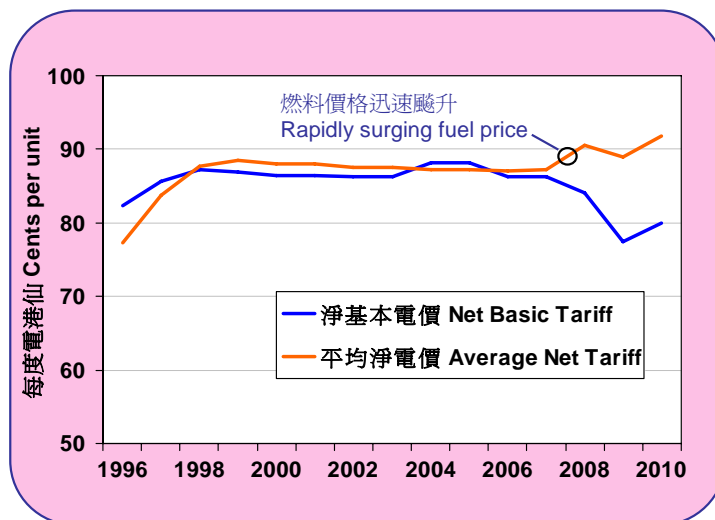
- Copper prices have risen 100% from early 2009
- Aluminium prices have risen 40% from early 2009
- Market coal prices have risen to over US\$80/tonne from a level of around US\$60/tonne early this year

3) Overview of Performance

Reasonable Tariff

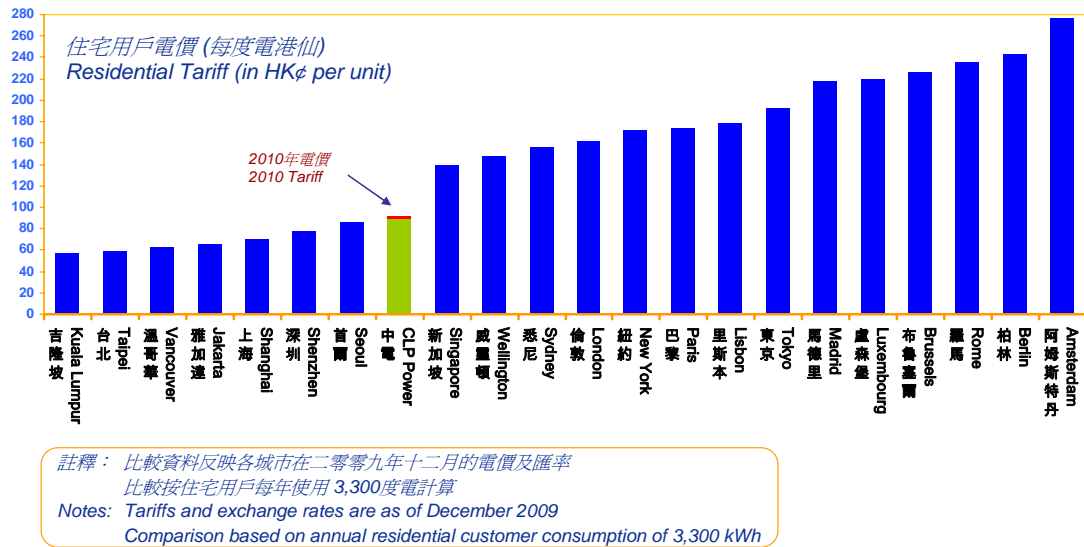
CLP has managed our tariff responsibly to keep it stable and affordable to our customers over the years. We have frozen our Basic Tariff for a decade, and offered over HK\$4 billion in rebates to our customers during this period.

中電電價
CLP Electricity Tariff



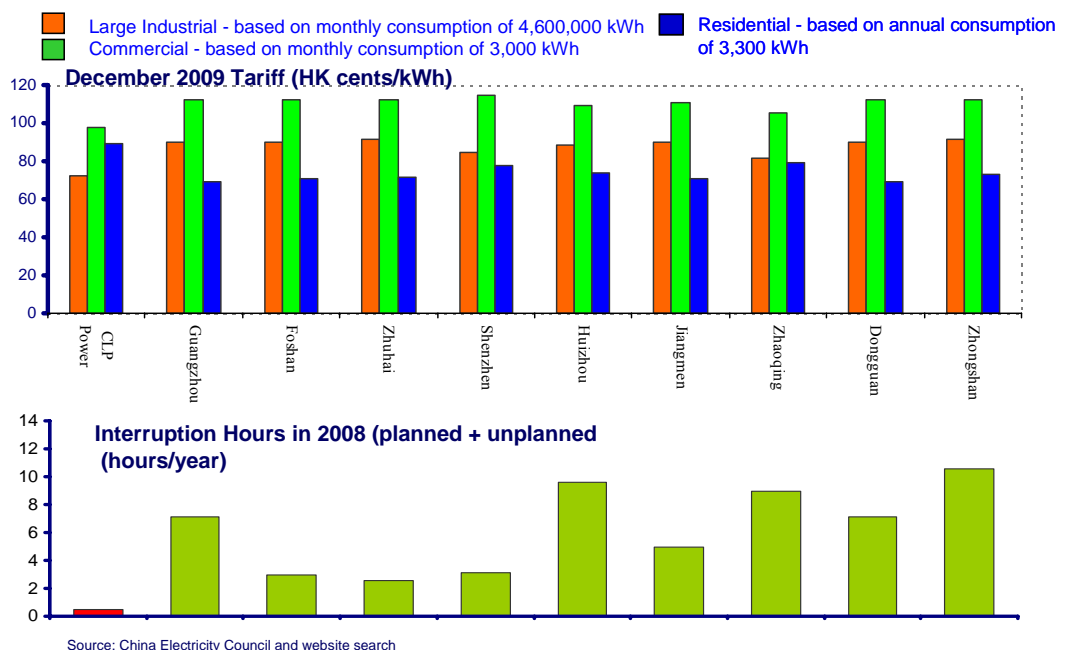
Our average Basic Tariff was reduced by 10% in October 2008. With the 2.6 cents per unit increase for 2010, there is still about 7% net reduction in average Basic Tariff from September 2008. In fact, after this adjustment, our Basic Tariff remains lower than the level of 10 years ago. Despite significant fuel and material cost increases during the same period and CLP's continuous effort to use cleaner fuels, we have a relatively low tariff among other energy utilities in Hong Kong while our reliability is amongst the best in the world.

Tariff Comparison



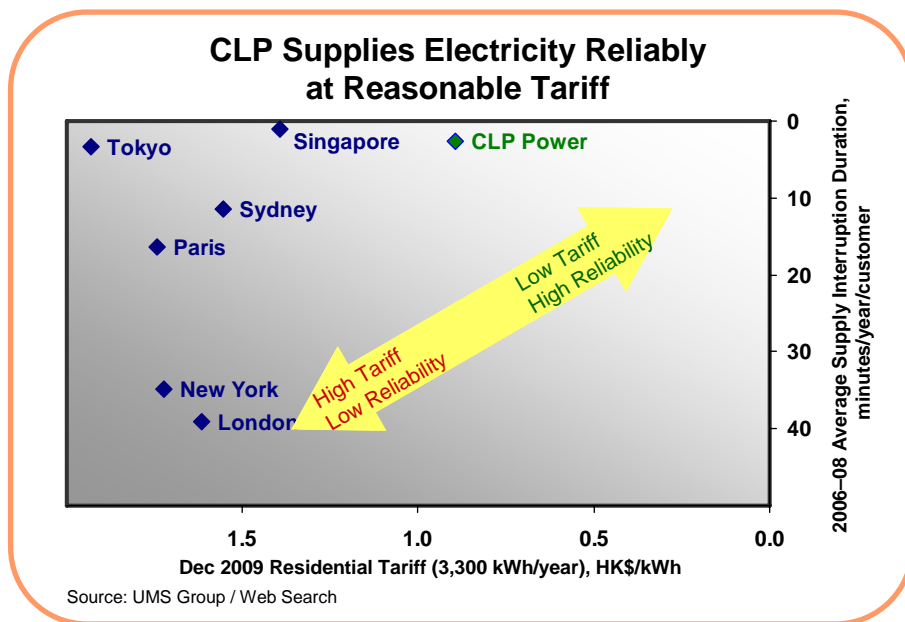
As illustrated in the chart above, CLP's new tariff is still highly competitive when compared with other major cities. The tariff for typical residential customers is only about half of that in many other major cities like New York and Tokyo. We fully recognise the objective of maintaining tariffs at a stable and reasonable level; and unlike major metropolitan cities such as New York, London and Sydney which have raised their residential tariff levels in the range of 20% to 55% in the past 5 years, CLP has increased its tariff by a mere 2.3% in the period.

In addition, CLP surpasses neighbouring Mainland cities such as Guangzhou, Zhuhai and Shenzhen in excellent supply quality with reasonable tariff level.



Reliability performance

Hong Kong has one of the most reliable electricity services in the world. We make continuous attempts to not just maintain, but improve on our performance in line with rising customer expectations. Since 2000, Unplanned Customer Minutes Lost (CML) per year, a standard measure of supply reliability, has been lowered by 81%. A typical customer in CLP's supply area would have experienced an average of only 2.7 minutes of unplanned power interruptions per year during the period from 2006 to 2008. Compared to other leading world cities, CLP provides a lower tariff and a higher reliability for its customers.



Emissions performance

In 2008, the emissions of sulphur dioxide (SO₂), nitrogen oxides (NO_x) and particulates from our power stations in Hong Kong fell by approximately 30%, 21% and 16% respectively compared to 2007 levels. Looking ahead, the commissioning of the Emissions Control facilities is essential for CLP to meet Government's 2010 emissions reduction targets. Furthermore, to help improve environmental performance for Hong Kong, preparation for bringing new gas supplies to Hong Kong is also very important.

