CB(1)1024/11-12(01)

For information

Legislative Council Panel on Economic Development

Supplementary Information provided by the Power Companies on Five-year Development Plan and Annual Tariff Review

At the meeting of Panel on Economic Development on 7 February, Members discussed, with closed-door and relevant confidentiality arrangements in place, the supplementary information on the Five-year Development Plan and 2012 Tariff Review submitted by the two power companies in the form of confidential documents. The power companies also provided detailed explanation to questions raised by Members.

2. In the light of Members' views, the power companies agreed at the meeting to make public those parts of the aforesaid documents not involving confidential information. For details, please refer to the Annexes.

Environment Bureau
8 February 2012

Annex

CLP

Annex 1A : Information relevant to the Five-year Development Plan

Annex 1B : Information relevant to the Tariff Review

HEC

Annex 2A : Information relevant to the Five-year Development Plan

Annex 2B : Information relevant to the Tariff Review

Provision of information by CLP Power (CLP) in response to the request of Economic Development Panel of the Legislative Council

I. Information related to the Five-year Development Plan

1. Capital expenditure forecasts under the approved[1] Five-year Development Plan

Categories[5] ($ million)	**2008[2]**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
(A) Power Generation System							
Emission Reduction Project	577	2,360	1,821	1,387			6,432[3]
Other generation related projects	333	1,327	1,302	1,360			5,943
Sub-total	910	3,687	3,123	2,747			12,375
(B) Transmission & Distribution System	1,251	4,365	4,804	5,094			25,903
(C) Customer and Corporate Services Development	90	310	315	328			1,647
Total (A + B + C)	**2,251**	**8,362**	**8,242**	**8,169**			**39,925**
(D) MOU related projects[4] on top of the approved total capital expenditure under the 5-yr Development Plan	-	3	88	901			1,682
Grand Total	**2,251**	**8,365**	**8,330**	**9,070**			**41,607**

Remarks:

[1] Approved by the Executive Council on the 23rd September 2008, as advised in EnB's paper to the Legislative Council of the same date. It covers the period from the 1st October 2008 to the 31st December 2013.

[2] Period covering Oct - Dec 2008.

[3] Total project cost is around $9 billion, part of which is covered by the previous Development Plan.

[4] To realize the long-term stable supply of gas contemplated under the Memorandum of Understanding (MOU) signed between the Hong Kong SAR Government and the National Energy Administration. For information, it is anticipated that the Basic Tariff impact would be around 0.6 cent/unit in 2012.

[5] Capital expenditure forecast breakdowns are shown on page 2 & 3.

Notes to the confidential figures:

- Revealing CLP major capital expenditure categories would enable the suppliers easily assess the budget estimates of certain projects that would increase their ability of price negotiations. Such might cause an increase in the costs of capital expenditure leading to an increase future tariff level. This would also reveal CLP's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Translated from the Chinese document presented to the Legislative Council on 8 February 2012. Annex 1A

Submission of Major Projects in the 2008 Development Plan

Generation

No.	Projects	$billion
1.	Emissions Control Project	6.4
	Other Generation Related Projects	
2.	Black Point Plant Modification	
3.	Replacement & Refurbishment of obsolete/aged equipment in Black Point Power Station, Castle Peak Power Station and Penny's Bay Power Station [hundreds of work items]	5.4

Transmission & Distribution

No.	Projects	$billion
	Meeting Load Requirements	
1.	Establishment of Chui Ling Road Substation (Tseung Kwan O Development)	
2.	Establishment of South East Kowloon 'A' Substation	
3.	Establishment of South East Kowloon 'D' Substation	0.4
4.	Establishment of HKUST Substation	
5.	Establishment of West Kowloon Reclamation 'B' Substation	
6.	Establishment of Fu On Street Substation	0.2
7.	Addition of 3rd 132/11kV Transformer at Pak Shek Kok Substation	
8.	Establishment of Sky City Road Substation (formerly Airport 'D' Substation)	0.1
9.	Establishment of Yue Man Square Substation	
10.	Addition of 3rd 132/11kV Transformer at Fo Tan Substation	
11.	Establishment of 2nd 400kV Yuen Long - Lai Chi Kok Circuit	
12.	Meeting Load Requirements - Others (Other projects < $100m and many thousands of projects to meet customer demand)	6.8
	Meeting Government/ Infrastructure Requirements	
13.	Establishment of Stonecutters Island Substation	
14.	Tseung Kwan O – Tai Wan 400kV Cable Diversion for Kai Tak Development	0.1
15.	Meeting Government/ Infrastructure Requirements Others Other projects < $100m and hundreds of projects to support Government's new railways, roads, bridges and redevelopment projects)	1.6
	Maintaining Supply Reliability & Quality	
16.	400kV Tower Lines Reinforcement for Super Typhoon	
17.	Establishment of 132kV Open Rings in Tuen Mun	
18.	Establishment of 2 x 132kV Chui Ling Road - Tseung Kwan O Industrial Estate Circuits	
19.	Establishment of 2 x 132kV Junction Road - Kai Tak Circuits	
20.	400kV Tower Line Arresters	
21.	Maintaining Supply Reliability & Quality Others (Other projects < $100m and many thousands network reinforcement projects to maintain supply reliability & quality)	6.2
	Replacement & Refurbishment	
22.	132kV Oilfilled Cable Replacement	
23.	11kV Switchgear Refurbishment	
24.	Substation Building Refurbishment	
25.	Replacement of 132kV Switchboard at Kwai Chung 'A' Substation	0.2
26.	400kV Tower Lines Refurbishment	
27.	132kV Switchgear Refurbishment	
28.	Replacement of 132kV Transformers / Reactors	
29.	400kV Switchgear Refurbishment	
30.	Non-discretionary Asset Replacement & Refurbishment Others (Other projects < $100m and hundreds of projects to replace aged equipment)	2.8
31.	Network Operation Systems (System Control, Protection, Telecommunications)	1.2
32.	Miscellaneous & Others	0.9

Customer and Corporate Services

No.	Projects	$billion
1.	New & Replacement Meters, Metering System Development	0.8
2.	Customer Billing & Services System & Centre Facilities	0.3
3.	Corporate System Development (data storage, backup infrastructure & security system)	0.4
4.	Other Support Services	0.1

Total 39.9

Notes to the confidential information:

Since a lot of work is in progress under individual project, revealing the capital expenditure forecast would not be appropriate. Such projects may be in the tendering stage or maybe at a commercially sensitive stage. As a result, revealing such confidential figures would not be in the interest of customers.

Major Projects Excluded During the Review of Development Plan

Generation

No.	Projects	$billion
1.	150 MW Peaking Unit	
2.	LNG Receiving Terminal Project	10.4

Transmission & Distribution

No.	Projects	$billion
1.	Establishment of 3rd 132kV Castle Peak - Airport 'A' Circuit	
2.	Establishment of LNG Terminal Substation	
3.	Establishment of 132kV Open Rings in Hung Hom	
4.	Establishment of 2 x 132kV Tin Shui Wai 'A' - Tuen Mun Circuits	
5.	Establishment of 2 x 132kV Tai Kok Tsui Traction - West Kowloon Reclamation 'B' Circuits	
6.	Establishment of 2 x 132kV Tai Hom - Hammer Hill Circuits	
7.	Establishment of 2 x 132kV Chuk Yuen - Hammer Hill Circuits	
8.	Establishment of South East Kowloon 'C' Substation	
9.	Addition of 4th 400/132kV Transformer at Castle Peak Power Station	
10.	Preparatory Works for Mongkok Market Substation	

Notes to the confidential information:

For those projects which have not yet commenced, revealing the capital expenditure forecast would not be appropriate. If such capital expenditure are to be incurred in the future, CLP's bargaining power will be weakened in price negotiations, resulting in higher prices to be borne by Hong Kong citizens. Therefore, it is in the interest of CLP's 2.3m consumers to keep these numbers confidential.

2. Actual capital expenditure in the Five-year Development Plan Period

Categories ($ million)	**2008**[1]	**2009**	**2010**	**2011**[2]	**2012**[3]
(A) Power Generation System					
Emission Reduction Project	614	2,137	1,685	884	
Other generation related projects	366	1,192	1,417	1,475	
Sub-total	980	3,329	3,102	2,359	
(B) Transmission & Distribution System	1,135	4,166	4,164	4,494	
(C) Customer and Corporate Services Development	69	281	386	419	
Total (A + B + C)	**2,184**	**7,776**	**7,652**	**7,272**	
(D) MOU related projects on top of the approved total capital expenditure under the 5-yr Development Plan	-	22	96	772	
Grand Total	**2,184**	**7,798**	**7,748**	**8,044**	

Remarks:

[1] Period covering Oct - Dec 2008.

[2] Projected figures per 2012 Tariff Review subject to final verification and annual audit.

[3] As projected and forecast in the 2012 Tariff Review submission.

Notes to the confidential figures:

- Revealing CLP major capital expenditure categories would enable the suppliers easily assess the budget estimates of certain projects that would increase their ability of price negotiations. Such might cause an increase in the costs of capital expenditure leading to an increase future tariff level. This would also reveal CLP's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

3. Tariff Component by year - Five-year development plan forecast compared with annual tariff review

Tariff Component (cents/ kWh)	**2008**	**2008**	**2009**	**2010**		**2011**		**2012**		**2013**
	Actual Tariff (up to Sept)	Actual Tariff (Oct-Dec)	DP Forecast/ Annual Tariff Review*	DP Forecast#	Annual Tariff Review	DP Forecast#	Annual Tariff Review	DP Forecast#	Annual Tariff Review	DP Forecast#
(A) Basic Tariff	86.0	77.4	77.4	82.7	80.0	86.7	80.0	**[A]** 86.3	84.2	
Increase/(Decrease)%										
-- *Annual*	-	(10%)			3.4%		0.0%		5.3%	
-- *Since Sept 2008*	-	(10%)	(10%)	(3.8%)	(7.0%)	0.8%	(7.0%)	0.3%	(2.1%)	
(B) Fuel Clause Charge	5.9	11.8	11.8	20.7	11.5	17.9	14.1	**[B]** 14.9	17.8	
Increase/(Decrease)%										
-- *Annual*	-	100%			(2.5%)		22.6%		26.2%	
-- *Since Sept 2008*	-	100%	100%	250.8%	94.9%	203.4%	139.0%	152.5%	201.7%	
(C) Rate Reduction Reserve Rebate	-0.8	-0.8	-	-	-	-	-	-	-	
(D) R&R Special Rebate	-	-	-	-	-	-	-	-	**(3.3)**	
(E) Net Tariff	**91.1**	**88.4**	**89.2**	**103.4**	**91.5**	**104.6**	**94.1**	**[C] 101.2**	**98.7**	
Increase/(Decrease)%										
-- *Annual*	-	**(3.0%)**			**2.6%**		**2.8%**		**4.9%**	
-- *Since Sept 2008*	-	**(3.0%)**	**(2.1%)**	**13.5%**	**0.4%**	**14.8%**	**3.3%**	**11.1%**	**8.3%**	

* The two exercises were done at the same time.

The tariff rates for 2010-2013 are only projections and the actual tariffs to be charged to consumers each year will be determined in the preceding year, following discussions between Government and CLP during the annual Tariff Review, taking into account any variations in the components of the Development Plan.

Notes to the confidential figures: Indirectly reveals CLP’s future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any “tipping” to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Remarks:

[A] Implemented 2012 Basic Tariff is still below the level projected in the Development Plan.

[B] These are pass-through costs and CLP makes no profit on fuel.

[C] As a result of the 2012 Tariff Review, the current level of the Net Tariff is also below the projected level in the Development Plan.

CLP's Consideration in Tariff Adjustment:

1. CLP's objective is to provide reliable supplies of electricity to our customers at the lowest reasonable cost, delivering high levels of customer service, whilst continuing to improve environmental performance to meet Government's regulatory requirements.

2. The 2008 Development Plan, developed in accordance with the Scheme of Control Agreement (SCA) signed in 2008, forms the basis for the Basic Tariff Price path during the period up until 2013. At the ExCo meeting on the 23rd September 2008 the Council advised and the Chief Executive ordered that the plan be approved. The Legislative Council Brief dated 23rd September 2008 [ENB CR 1/4576/08 Pt.6] confirmed the basis of approval and the rationale behind Government's decision.

3. CLP uses coal and natural gas for our local power generation. Our coal supply comes from contracts with different suppliers, with different term and pricing mechanisms to diversify the risks, especially during volatile market situations. As for natural gas, we have been receiving piped-gas from Yacheng gas fields since 1996 under a long term contract with price set in 1990's when oil price was only US$ 20 per barrel.

4. Significant pressures are building on fuel costs as our fuel mix is essentially determined by the need to comply with Government's emissions caps which are approved by Legco and are used to implement environmental policy objectives. More gas will be used in place of coal in the coming years, with new supplies costing much more than gas from the current Yacheng contract. The new supplies will be purchased from Mainland companies, in line with the Inter-Government MOU on energy supplies signed in 2008.

5. The SCA sets out the role for two balancing funds – the Tariff Stabilisation Fund (TSF) and the Fuel Clause Recovery Account (FCA), which are designed to act to smooth out volatility in adjusting both the Basic Tariff and the Fuel Clause Charge. The TSF has been drawn down from a positive balance of $1,910 million at the end of the last Development Plan and is now projected to reach just $119m by the end of 2012. The Fuel Clause Recovery Account is in deficit for the 5th year running and is now projected to reach a deficit of more than $800m by the end of 2012. As these balancing funds are now either almost exhausted or in deficit, rises in the Basic Tariff & Fuel Clause Charge are inevitable.

II. Information related to tariff adjustments

1. The proposed tariff increases originally submitted to Government by CLP Power on 20th October 2011

	2011 Tariff c/kWh	Original Proposal* for 2012 Tariff c/kWh	Adjustment %
Basic Tariff	80.0	85.8	7.3%
Fuel Clause Charge	14.1	20.3	44.0%
Net Tariff	94.1	106.1	12.8%
Year end Balance ($ million)			
- Tariff Stabilisation Fund (TSF)	683	517	
- Fuel Clause Recovery Account	(260)	0	

* A Basic Tariff of 86.3 cents/unit was approved by ExCo in the 2008 Development Plan. Additional cost saving measures enabled CLP to propose a lower Basic Tariff. A reasonable level of TSF is necessary for it to act as a balancing fund to cater for uncertainties in 2012 such as adverse weather conditions.

The year-on-year 2011 local sales growth up to end October was only 0.3%, which was 1.2 percentage point lower than the full year projection of 1.5%.

A $500 million balance in the TSF represents around 1.7% of sales.

6.2 cents per unit is the minimum fuel clause charge increase projected to return the Fuel Clause Recovery Account back into balance, necessary given the future increases in the cost of fuel, from gas in particular.

2. The rationales and calculation methods of the original proposal of CLP Power submitted to the HKSAR Government

	Rationales for tariff increase	**Tariff impact (c / kWh)**
(1)	**Basic Tariff**	
(a)	**Increase in Average Net Fixed Asset** Increase from [a] in 2011 to [a] in 2012, the majority of which is from investment in our transmission & distribution network to meet supply reliability and customer demand. (Tariff impact includes interest payments borne by the companies, Government taxes as well as net return)	+1.7
(b)	**Increase in operating expenses** Increase from $12.63 billion in 2011 to $13.32 billion in 2012. This mainly includes Nuclear Power Purchase, Depreciation, Government Rent & Rates and Pumped Storage Service Fee, which are set through contracts or accounting policies and are not controllable. (A more detailed breakdown is in section 5)	+2.2
(c)	**Increase in local electricity sales** Increase from 31,390GWh in 2011 to [b] in 2012 (breakdown see note a) and the Standard Fuel Cost increase of $112 million	-0.6
(d)	**Decrease in sales to Mainland** Decrease from 2,520GWh in 2011 to [c] in 2012 because there is no contract for GPG purchase in 2012	+0.5
(e)	**Decrease in Tariff Stabilisation Fund Balance** Without Basic Tariff increase in 2011, depletion rate of TSF is averaging ~$70m/month in 2011. This is not sustainable in 2012. Basic Tariff rise therefore is necessary for 2012 to reduce the rate of draw-down from TSF balance. Even with an increase of 2.5 cents, the TSF balance would still decrease from $683 million (end 2011) to $517m (end 2012).	+2.5
(f)	**Others (Change in Interest and Taxation)** Change in taxation (apart from that included in (a) and (e)) and interest	-0.5
	Sub-total (Basic Tariff):	+5.8

	Rationales for tariff increase	Tariff impact (c / kWh)
(2)	**Fuel Clause Charge**	
(a)	**Increase in Fuel Price** Increase due to fuel expense change is $1,858 million (Note b) and electricity sales growth of [b] in 2012	+5.5
(b)	**Correction for the over-/under-collection of fuel clause charge in 2011** (ie the total Fuel Clause Charge received minus "difference between Standard Fuel Cost and Actual Fuel Cost") The amount of over-recovery of fuel cost in 2011 is $37 million	-0.1
(c)	**Change in the Fuel Clause Recovery Account deficit** Decrease of the Fuel Clause Recovery Account deficit from $260 million at end 2011 to $0 million at end 2012*; the change is $260 million	+0.8
	Sub-total (Fuel Clause Charge):	+6.2
	Grand total:	+12.0

* A neutral balance to prepare for the arrival of the more expensive new gas supplies to replace the 20 year old contract for the rapidly depleting Yacheng Y13-1 field. The gas price was set in the 1990s when the oil price was only around US$20/bbl. For a better appreciation of the increase in costs, the new 2nd West to East Pipeline supply from the mainland, when it is contracted under the inter-governmental MOU, is expected to be about 3 times the current gas price, which will be comparable to the current international market price.

Notes to the confidential figures:

a. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2012 profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

b. Disclosure of future sales growth might indicate to suppliers CLP's underlying demand which could increase their bargaining power in setting prices leading to higher prices to be borne by Hong Kong citizens. This might also reveal CLP's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

c. Given that there is no contract for sales to GPG, the sales quoted are now only made to a single customer (Shekou) and disclosure would breach our duty of care to respect the confidentiality of individual customer data, as well as breaching the confidentiality clauses in the supply agreement.

Note a

Local Sales Forecast

	2011 Forecast *		2012 Forecast *	
	This Submission	Incr./ (Decr.) over 2010	This Submission	Incr./ (Decr.) over 2011 Forecast
	GWh	%	GWh	%
Local sales				
• Commercial	12,745	0.8		
• Residential	8,695	2.8		
• Infrastructure & Public Services	8,030	1.9		
• Manufacturing	1,920	(1.6)		
Total Local Sales	31,390	1.5		

* Normal weather assumed in sales forecast

Notes to the confidential figures:

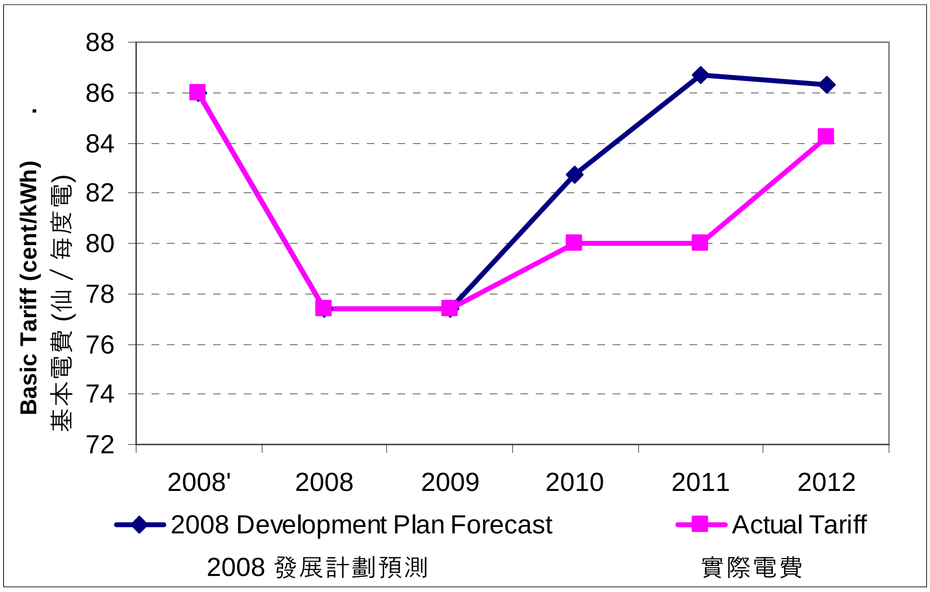
Disclosure of future sales growth might indicate to suppliers CLP's underlying demand which could increase their bargaining power in setting prices leading to higher prices to be borne by Hong Kong citizens. This might also reveal CLP's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

3. The rationales and calculation methods of the final proposals of CLP Power

(i) Final Tariff Adjustment

	2011 Tariff c / kWh	Final Proposal for 2012 Tariff c / kWh	Adjustment %
Basic Tariff	80.0	84.2	5.3%
Fuel Clause Charge	14.1	17.8	26.2%
Rent & Rates Special Rebate	-	-3.3	N/A
Net Tariff	94.1	98.7	4.9%
Year end Balance ($ million)			
- Tariff Stabilisation Fund	635	119	
- Fuel Clause Recovery Account	(261)	(833)	

Basic Tariff since the beginning of the current Development Plan - still below the approved level for 2012 and below that applying in 2008



2008' = Sept 2008 which marks the end of the previous Development Plan.

Figures in 2008' included Special Rebates.

(ii) Rationales for tariff increase

	Rationales for tariff increase	Tariff impact (c / kWh)
(1)	**Basic Tariff**	
(a)	**Increase in Average Net Fixed Asset** Increase from [a] in 2011 to [a] in 2012, the majority of which is from investment in our transmission and distribution network. (Tariff impact includes interest payments borne by the companies, Government taxes as well as net return)	+1.6
(b)	**Increase in operating expenses** Increase from $12.70 billion in 2011 to $13.26 billion in 2012. This mainly includes Nuclear Power Purchase, Depreciation, Government Rent & Rates and Pumped Storage Service Fee, which are set through contracts or accounting policies and are not controllable. A further $60m saving in our controllable operating costs has been included in 2012. (A more detailed breakdown is in section 5)	+1.8
(c)	**Increase in local electricity sales** Increase from 31,390GWh in 2011 to [b] in 2012 (breakdown see note a) and the Standard Fuel Cost increase of $112 million	-0.6
(d)	**Decrease in sales to Mainland** Decrease from 2,720GWh in 2011 to [c] in 2012 because there is no contract for GPG purchase in 2012	+0.6
(e)	**Decrease in Tariff Stabilisation Fund Balance** Without Basic Tariff increase in 2011, depletion rate of TSF is averaging ~$70m/month in 2011. This is not sustainable in 2012. Basic Tariff rise therefore is necessary for 2012 to reduce the rate of draw-down from TSF balance. Even with an increase of 1.3 cents, the TSF balance would still decrease from $635 million (end 2011) to $119m (end 2012).	+1.3
(f)	**Others (Change in Interest and Taxation)** Change in taxation (apart from that included in (a) and (e)) and interest	-0.5
	Sub-total (Basic Tariff):	+4.2

The 2011 figures were updated based on the latest information and assumptions by the time the final tariff adjustment was proposed.

The reduction in Basic Tariff increase from 5.8 to 4.2 c/u is achieved through continued draw-down on Tariff Stabilisation Fund, savings from the removal of planned capital expenditure on additional generating capacity and further efforts to reduce operating cost.

	Rationales for tariff increase	**Tariff impact (c / kWh)**
(2)	**Fuel Clause Charge**	
	(Detail see item 4 below)	
	Sub-total (Fuel Clause Charge):	+3.7
(3)	**Rent & Rates Special Rebate**	
	Sub-total (R&R Special Rebate):	-3.3
	Grand total:	+4.6

Notes to the confidential figures:

a. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2012 profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any “tipping” to others for dealings may also commit an offence under the Securities and Futures Ordinance.

b. Disclosure of future sales growth might indicate to suppliers CLP’s underlying demand which could increase their bargaining power in setting prices leading to higher prices to be borne by Hong Kong citizens. This might also reveal CLP’s future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any “tipping” to others for dealings may also commit an offence under the Securities and Futures Ordinance.

c. Given that there is no contract for sales to GPG, the sales quoted are now only made to a single customer (Shekou) and disclosure would breach our duty of care to respect the confidentiality of individual customer data, as well as breaching the confidentiality clauses in the supply agreement.

4. The current [i.e. final proposal] details of the Fuel Clause Recovery Account and the derivation of the Fuel Clause Charge adjustments

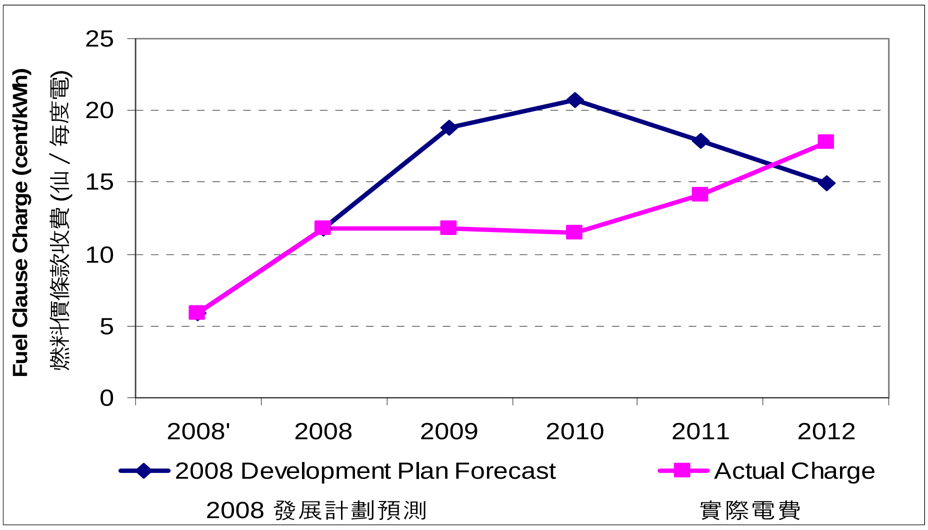
	Rationales for tariff increase	**Impact to Fuel Clause Charge (c / kWh)**
(a)	**Increase in Fuel Price** Increase due to fuel expense change is $1,858 million (Note b) and electricity sales growth of [a] in 2012	+5.5
(b)	**Correction for the over-/under-collection of fuel clause charge in 2011** (ie the total Fuel Clause Charge received minus "difference between Standard Fuel Cost and Actual Fuel Cost") The amount of over-recovery of fuel cost in 2011 is $37 million	-0.1
(c)	**Change in the Fuel Clause Recovery Account deficit to reduce tariff increase** Increase of the Fuel Clause Recovery Account deficit from $261 million at end 2011 to $833 million at end 2012; the change is $572 million	-1.7
	Grand total:	+3.7

The reduction in Fuel Clause Charge increase from 6.2 to 3.7 c/u is achieved through shouldering a bigger deficit in the Fuel Clause Recovery Account.

Notes to the confidential figures:

a. Disclosure of future sales growth might indicate to suppliers CLP's underlying demand which could increase their bargaining power in setting prices leading to higher prices to be borne by Hong Kong citizens. This might also reveal CLP's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Fuel Clause Charge since the beginning of the current Development Plan



2008' = Sept 2008 which marks the end of the previous Development Plan.
Fuel Clause Charges reflect our actual buying prices and are passed through to customers. CLP makes no profit on fuel.

Note b

Fuel consumed (terajoules)	2011 Forecast	2012 Forecast
• Coal	168,800	
• Natural Gas	57,700	
• Oil	1,000	
Total	227,500	

Average Fuel Price (HK$ per gigajoule)	2011 Forecast	2012 Forecast
• Coal	31.7	
• Natural Gas	46.1	
• Oil	108.6	
Overall	35.7	

Fuel Cost ($ million)	2011 Forecast	2012 Forecast
• Coal	5,354	
• Natural Gas	2,659	
• Oil	107	
Overall	8,120	
Standard Fuel Cost	3,618	
Fuel Cost exceeding Standard Fuel Cost	4,502	

Notes to the confidential figures:

Disclosure of fuel demand and price forecasts would materially disadvantage CLP in negotiations in setting price or volume delivery terms with fuel suppliers, resulting in higher prices and hence increased fuel clause charges to be borne by Hong Kong citizens.

5. The detailed items of the operating expenses and the respective budget figures.

Items for Non-Fuel Operating Expenses	**Forecast Expense for 2011 ($ million)**	**Forecast Expense for 2012 ($ million)**	**% Change**
Operating Costs			
Payroll	1,058	a	[1]
Material & Services	1,258	1,247	-1.0%
Loan charges	41	b	
Government Rent & Rates	543	573	5.5%
Fixed Asset Disposal	176	288	63.6% [2]
Exchange Gain /Loss	-	c	
Pumped Storage Service Fee	516	537	4.1%
Sub-total for Operating Costs:	3,592	3,849	7.2%
Nuclear power purchase	4,946	4,981	0.7%
Provision for asset decommissioning	270	292	8.1% [3]
Depreciation	3,896	4,139	6.2% [4]
Sub-total for Operating Costs and Depreciation:	**12,704**	**13,261**	**4.4%**
Operating Interest	772	b	[5]
Taxation	1,510	1,625	7.6% [6]
Total Non-fuel Operating Expenses:	14,986	15,789	5.4%

[Table see notes below]

Notes on the confidential figures:

a. The 2012 figure is a budget based on the expected number of employees and salary adjustments. Inappropriate release of the information to the public before it is communicated to staff would jeopardise relations between CLP and its employees.

b. Disclosure of this confidential funding information could materially affect CLP's borrowing cost, leading to increased costs to Hong Kong citizens.

c. Disclosure of this confidential currency exchange information could materially affect CLP's ability to make currency exchange at the lowest cost, leading to increased costs to Hong Kong citizens.

Items for Non-Fuel Operating Expenses	Reasons for Large Change
[1] Payroll	Payroll cost increase is in two parts: (i) 2012 budgeted pay rise in line with inflation; (ii) 2011 was a challenging year for recruitment with an above average number of vacancies, so payroll costs are lower than would otherwise be the case. 2012 budgets include salary costs for vacancies which are now in the process of recruitment.
[2] Fixed Asset Disposal	Fixed asset disposal cost in 2011 artificially lower, given proceeds from insurance claims and the rescheduling of the dismantling & disposal program (2012 fixed asset disposal budget is in line with the 2010 figures)
[3] Provision for asset decommissioning	In line with asset changes
[4] Depreciation	Mainly due to the normal increment in line with capital expenditure investment in transmission & distribution projects and generating facilities as well as the newly commissioned Emission Reduction Project
[5] Operating Interest	Change in forecast interest rate
[6] Taxation	Taxation obligation

Rationales and Calculations for CLP Tariff Adjustment in the Interim and Final Proposals **Annex 1B**

(1) Basic Tariff

	Rationales for tariff increase (20 Oct)	**Tariff Impact (c/kWh) (20 Oct)**	**Government's Major Comment**	**Tariff impact (c / kWh)**		
				13 Dec	**21 Dec**	**30 Dec**
(a)	**Increase in Average Net Fixed Asset** Average Net Fixed Assets have increased by around 5% per annum since 2009 due to higher capital expenditure on Emissions Control facilities, new developments in West Kowloon and Kowloon East and support for new Government infrastructure projects. This capital expenditure is approved in the 2008 Development Plan. However projected tariff increases in 2010 and 2011 were not implemented as planned. Instead, the Tariff Stabilisation Fund was reduced so as to effectively defer these tariff increases. In 2011 the Tariff Stabilisation Fund reduced on average by $70 million per month which is not sustainable.	+1.7	**To take out capital expenditure on projects not yet approved**	+1.7	+1.7	+1.6 Removal of planned capital expenditure on preparation for additional generating capacity (reduction of Average Net Fixed Asset increase of about $300 million)
(b)	**Increase in operating expenses** CLP's total expenses include Nuclear Power Purchase, Depreciation, payments for use of the Guangdong Pumped Storage facility, Government Rent & Rates, etc. The majority of these costs are set through contracts or accounting policies and are not under CLP's direct control. CLP's 2012 operating costs (around $3.9 billion) represent only a small portion of those total expenses. Operating costs are forecast to increase significantly in 2012 compared to 2011 because: (i) additional costs to purchase materials to operate the newly commissioned emission reduction facilities, (ii) higher fixed asset disposals, 63.6% higher than 2011, due to the gas replacement work to prepare for the arrival of new gas supplies; (iii) an artificially low 2011 base year as a result of exceptional items, such as the $50m received from insurers in respect of claims	+2.2	**Increase in operating costs is 11.2%, much higher than inflation. Request CLP to manage better cost control**	+2.2	+2.2	+1.8 A further $60 million saving in CLP's controllable operating costs has been included in 2012
(c)	**Increase in local electricity sales** Projected increase in local sales in 2012 would reduce tariff impact	-0.6		-0.6	-0.6	-0.6

	Rationales for tariff increase (20 Oct)	Tariff Impact (c/kWh) (20 Oct)	Government's Major Comment	Tariff impact (c / kWh)		
				13 Dec	**21 Dec**	**30 Dec**
(d)	**Decrease in sales to Mainland** Projected decrease in sales to Mainland in 2012 would increase tariff impact	+0.5		+0.6 Updated to reflect the latest information	+0.6	+0.6
(e)	**Decrease in Tariff Stabilisation Fund (TSF)** CLP's net fixed assets had increased in 2010 to absorb the cost of the emission reduction project but CLP chose to draw down substantially the TSF balance in 2011 in lieu of a Basic Tariff increase as projected in the Development Plan A Basic Tariff increase of 2.5 cents would maintain a TSF balance of about $500 million by end 2012	+2.5	**To reduce TSF balance**	+1.6 Reducing end 2012 TSF balance to $300 million would allow reduction in the Basic Tariff increase to 1.6 cents	+1.6	+1.3 Further lowering end 2012 TSF balance to $120 million, represents only one day sales, would allow reduction in the Basic Tariff increase to 1.3 cents
(f)	**Others (Change in Interest & Taxation)** Change in taxation (apart from that included in (a) and (e)) and interest	-0.5		-0.5	-0.5	-0.5
	Sub-total (Basic Tariff): The proposed 2012 Basic Tariff and capital expenditure are below Development Plan approved levels. CLP's current Basic Tariff is lower than 15 years ago.	+5.8		+5.0	+5.0	+4.2

(2) Fuel Clause Charge

	Rationales for tariff increase (20 Oct)	Tariff Impact (c/kWh) (20 Oct)	Government's Major Comment	Tariff impact (c / kWh) 13 Dec	21 Dec	30 Dec
(a)	**Increase in Fuel Price** Fuel costs are projected to increase from HK$8.1b in 2011 to HK$10.1b in 2012 due to 15% increase in coal price & 31% increase in natural gas price. This is expected to continue and to become more significant when new gas supplies are fully introduced to replace the existing source.	+5.5		+5.5	+5.5	+5.5
(b)	**Correction for the over-/under-collection of fuel clause charge in 2011** Adjustment mechanism for 2011	-0.1		-0.1	-0.1	-0.1
(c)	**Change in the Fuel Clause Recovery Account (FCA) deficit** New gas supplies will be introduced starting in 2012 to replace the existing supply. New prices will be 2 to 3 times higher. The Fuel Clause Recovery Account has already been in deficit for the last 5 years and extending the deficit is not prudent given the fact that fuel costs are likely to rise substantially.	+0.8 To return the Fuel Clause Recovery Account back into balance	**To register a much higher deficit in end 2012 FCA balance**	-1.7 Reduced Fuel Clause Charge increase to 3.7 cents in total resulting in a large FCA deficit of $830 million which is close to historical high	-3.4 In response to public's concern, the Fuel Clause Charge increase was lowered to 2 cents in total, giving a Fuel Clause Recovery Account deficit of HK$1.4b which CLP noted as not sustainable	-1.7 Fuel Clause Charge increase revised to 3.7 cents as part of the new tariff proposal, resulting in a large FCA deficit of $830 million
	Sub-total (Fuel Clause Charge):	+6.2		+3.7	+2.0	+3.7
(3)	**Rent and Rates Special Rebate** CLP has been pursuing legal action against the Rating and Valuation Department of the Hong Kong Government for the overcharging of Rent and Rates since 1999. CLP's case is still before the Lands Tribunal.					
	Sub-total (R&R Special Rebate):		**Rent and Rates refund belongs to customers, CLP should return the refund to them as soon as possible**	On 13th December CLP made a public commitment to return to customers all overpaid rent and rates		-3.3 After considering the latest legal and financial position, CLP decided to provide a special rebate of 3.3 cents per unit, which in effect offsets part of the tariff increase.
	Grand total:	**+12.0 (12.8%)**		**+8.7 (9.2%)**	**+7.0 (7.4%)**	**+4.6 (4.9%)**

Provision of information by
The Hongkong Electric Company Limited (HK Electric) in response to the request of Economic Development Panel of the Legislative Council

I. Information related to the Five-year Development Plan

1. Capital expenditure forecasts under the approved Five-year Development Plan

Categories ($ million)	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
(A) Power Generation System						
Emission Reduction Project	573.5	438.9	216.6			1,676.3
Post-commissioning projects & Other power generation system(s)	400.4	727.0	781.0			2,750.8
Sub-total	973.9	1,165.9	997.6			4,427.1
(B) Transmission & Distribution System	1,213.0	1,296.7	1,361.4			6,165.4
(C) Customer and Corporate Services Development	507.1	222.0	309.7			1,742.7
Grand Total	2,694.0	2,684.6	2,668.7			12,335.2

Note 1: Detailed breakdown of capital expenditure shown on page 2

Notes to the confidential figures:
Revealing HK Electric major capital expenditure categories would enable the suppliers easily assess the budget estimates of certain projects that would increase their ability of price negotiations. Such might cause an increase in the costs of capital expenditure leading to an increase future tariff level. This would also reveal HK Electric's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Approved 2009-2013 Development Plan – Project Capital Expenditure			
Project No.	Project	Remark	Project Total CapEx (HK$M)
G.1 Generation – Emission Reduction Projects			
G.1.1	Coal-Fired Units L2, L4, L5 FGD and Low NO_x Retrofit		654.6
G.1.2	Coal-Fired Unit L2-L6 Start Up Fuel Conversion from Heavy Fuel Oil to Ultra Low Sulphur Diesel		52.9
G.1.3	CCGT Unit GT57 Reliability Upgrading and Emission Performance Improvement		
G.1.4	CCGT Unit L9 Reliability Enhancement		339.1
G.2 Generation – Post Commissioning Projects & Other Generation Systems			
G.2.1	Upgrade coal-fired units operating efficiency and reliability - including upgrading unit L4, L5 steam turbine efficiency and replacing unit L6 control system		
G.2.2	Improve and upgrade coal conveying and handling system		190.4
G.2.3	New store building for gas generation facilities		101.4
G.2.4	Improve and Upgrade Common Facilities, Power Export Transmission Facilities and Other Auxiliary Plants		
T&D Transmission & Distribution Projects			
T&D.1	Marsh Road Substation and Associated Transmission Cable Circuits		717.5
T&D.2	Cable Replacement for Kennedy Road-Davis 132kV circuits		
T&D.3	Cable Replacement for North Point-Parker 132kV circuits		223.1
T&D.4	Power Supply to MTRC West and South Island Lines		
T&D.5	New Compact Zone Substation in Eastern District		
T&D.6	Reinforce Eastern District 275kV System for Phasing Out 132kV Overhead Lines		269.6
T&D.7	Construct new distribution network to supply new customers		
T&D.8	Construct 22kVdistribution network to promote electricity supply reliability		
T&D.9	Replace North Point 132kV Station EHV Switchgear		
T&D.10	132kV & 275kV Transmission System Improvement & Reliability Upgrade		
T&D.11	HV/LV Distribution Systems Reinforcement		
C. Customer & Corporate Services Projects			
C.1	Replace and Upgrade IT systems for Corporate Applications including (1) HK Electric Customer Information System (HECIS); and (2) Enterprise Resources Planning & Operation Management Systems (MIAMI & ERP)		
C.2	Replace and Upgrade IT systems for Engineering Applications including (1) Power Station Central Management Information System (CNMIS); (2) Energy and Distribution Management Systems (EMS & DMS); and (3) EMS & DMS Remote Terminal Units (RTU)		
C.3	Distribution System Metering, Communication System, Customer Services, Operation Premises Improvement, Electric Vehicle, and Building M&E Services Energy Efficiency Upgrade		
	Total CapEx of All Above Projects		12,335.2

Notes to the confidential figures:

- Since a lot of works are in progress under individual project, revealing the capital expenditure forecast would not be appropriate. Such projects may be in the tendering stage or having potential contractual disputes with the contractors or suppliers. As a result, revealing such confidential figures may not benefit the customers.

Major Projects deleted in the course of Development Plan Review			
Project No.	Project	Remark	Project Total CapEx (HK$M)
	Lamma Extension - L10 combined cycle gas generating unit		
	Offshore wind farm		
	Lamma 275kV system reconfiguration		
	Total CapEx of All Above Projects		

Notes to the confidential figures:

- For those projects not yet commenced, revealing the capital expenditure forecast would not be appropriate. If such capital expenditures are to be incurred in the future, HK Electric will be weakened in the bargaining power in price negotiations during the tendering stage leading to increase in capital expenditure expenses which will indirectly cause increase in future tariff level that would cause harm to the interests of the customers.

2. Actual capital expenditure in the Five-year Development Plan Period

Categories ($ million)	**2009**	**2010**	**2011+**	**2012 Estimate**
(A) Power Generation System				
Emission Reduction Project	676.7	590.8	275.1	
Post-commissioning projects & Other power generation system(s)	486.1	556.2	922.7	
Sub-total	1,162.8	1,147.0	1,197.8	
(B) Transmission & Distribution System	963.1	934.2	1,200.3	
(C) Customer and Corporate Services Development	572.9	300.5	386.8	
Grand Total	2,698.8	2,381.7	2,784.9	

+ Provisional figures. Subject to final verification and annual audit.

Notes to the confidential figures:
Revealing HK Electric major capital expenditure categories would enable the suppliers easily assess the budget estimates of certain projects that would increase their ability of price negotiations. Such might cause an increase in the costs of capital expenditure leading to an increase future tariff level. This would also reveal HK Electric's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Explanations:
According to the prevailing 5-year (2009-2013) Development Plan, the cumulative actual total capital expenditure for the1st 3-years (2009-2011) was lower than the budget estimate shown in the Development Plan ($7.8654 billion vs. $8.0473 billion). The forecast 4-year total capital expenditure up to 2012 would be close to the budget estimate of the Development Plan. ($10.5194 billion vs. $10.5052 billion).

The reasons for the variances between the actual capital expenditures and the 5-year Development Plan are listed below:

1. Power Generation System - Emission Reduction Project – Expenditure Increase
   - 1.1 The impact on contract prices due to RMB appreciation and metal and material cost escalations;
   - 1.2 Thin Film Photovoltaic solar power system installation;
   - 1.3 Reliability improvement and capacity expansion of auxiliary plants to cater for new emission reduction equipment

2. Power Generation System - Post-commissioning projects & other power generation systems Expenditure Increase

2.1 Maintenance building for doubling gas generation;
2.2 Gas Receiving Station reliability improvement for doubling gas generation;
2.3 Demineralization plant capacity expansion for new emission reduction equipment;
2.4 Replacement of employee passenger ferries;
2.5 Generation building improvement work.

3. Transmission & Distribution System – Expenditure Decrease
   3.1 Difficulty in obtaining permits and deferral of other infrastructure work;
   3.2 Site not yet granted for new Eastern District Compact Zone Substation;
   3.3 Other infrastructure projects leading to network diversions.

4. Customer and Corporate Services Development – Expenditure Increase
   4.1 Higher contract prices to purchase corporate service and engineering application IT computer systems;
   4.2 Replacement of electric vehicles for corporate operation fleet;
   4.3 Operation building improvement and building services energy efficiency upgrading;
   4.4 Offshore wind farm feasibility study.

3. Tariff component by year – Five-year development plan forecast compared with annual tariff review

Tariff Component (cents/ kWh)	2008	2009	2010		2011		2012		2013
	Actual Tariff	DP Forecast / Annual tariff review*	DP Forecast	Annual Tariff Review	DP Forecast	Annual Tariff Review	DP Forecast	Annual Tariff Review	DP Forecast
(A) Basic Tariff	116.9	94.5	95.3	94.5	97.3	93.1	98.6	94.1	
Increase/(Decrease)%									
-- Annual		-19.2%		-%		-1.5%		+1.1%	
-- Since 2008		-19.2%	-18.5%	-19.2%	-16.8%	-20.4%	-15.7%	-19.5%	
(B) Fuel Clause Charge	10.5	25.4	34.6	25.4	29.5	30.2	28.2	37.0	
Increase/(Decrease)%									
-- Annual		*+141.9%*		*-%*		*+18.9%*		*+22.5%*	
-- Since 2008		*+141.9%*	*+229.5%*	*+141.9%*	*+181.0%*	*+187.6%*	*+168.6%*	*+252.4%*	
(C) Rate Reduction Reserve Rebate			(0.1)	(0.1)					
(D) Special Rebate									
(E) Net Tariff	**127.4**	**119.9**	**129.8**	**119.8**	**126.8**	**123.3**	**126.8**	**131.1**	
Increase/(Decrease)%									
-- Annual		**-5.9%**		**-0.1%**		**+2.9%**		**+6.3%**	
-- Since 2008		**-5.9%**	**+1.9%**	**-6.0%**	**-0.5%**	**-3.2%**	**-0.5%**	**+2.9%**	

* The two exercises were done at the same time

Notes to the confidential figures:

Indirectly reveal HK Electric's future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

II. Materials related to tariff adjustments

In accordance with the prevailing Scheme of Control Agreement, electricity tariff (net tariff) is made up of the basic tariff and the fuel clause charge. The changes of basic tariff take into consideration of:- (1) Average Net Fixed Asset; (2) Operating Expenses; (3) Local Electricity Sales; (4) Tariff Stabilization Fund balance; and (5) Scheme of Control Taxation and Other Revenue. For the fuel clause charge, the factors include:- (1) Fuel Prices; (2) Correction of under-recovery of last year fuel clause charge; and (3) Fuel Clause Recovery Account balance.

1. The Original proposed tariff increase submitted to the HKSAR Government by HK Electric before the briefing on 13 December 2011

	2011 Tariff c/kWh	Mid-Oct 2012 Original Proposal for 2012 Tariff c/kWh	Adjustment %
Basic Tariff	93.1	94.1	1.1% +1.0 cent
Fuel Clause Charge	30.2	41.7	38.1% +11.5 cent
Net Tariff	123.3	135.8	10.1% +12.5 cent

Year End Balance ($ billion)		
- Tariff Stabilisation Fund (Estimate)	0.38B	0.09B
- Fuel Clause Recovery Account (Estimate)	(0.89B)	(0.90B)

2. The rationales and calculation methods [and details] of the Original Proposal of HK Electric submitted to the HKSAR Government:-

<table>
<tr><th></th><th>Rationales for tariff increase</th><th>Tariff impact (c / kWh)</th></tr>
<tr><td>(1)</td><td>Basic Tariff</td><td></td></tr>
<tr><td>(a)</td><td>Increase in Average Net Fixed Asset

(Increase from estimated $XXXXX billion in 2011 to estimated $XXXXX billion in 2012, the major components include capital expenditure on transmission projects, generation projects and corporate development projects)

Note: Average Net Fixed Assets for any year means the average, for that year, of the opening and closing balances of Net Fixed Assets.</td><td>XXX</td></tr>
<tr><td>(b)</td><td>Increase in operating expenses

(Increase from estimated $2.97 billion in 2011 to estimated $3.15 billion in 2012 mainly due to the rise in material prices & employee expenses and increase in depreciation)

Details please refer to item 5 below</td><td>+1.7</td></tr>
<tr><td>(c)</td><td>Increase in local electricity sales

(The sales of electricity increase from estimated 10.9 billion kWh in 2011 to estimated 11.0 billion kWh in 2012. The major changes in different categories are tabled as follows:)

<table>
<tr><th>Million kWh</th><th>2011 Estimate</th><th>2012 Estimate</th></tr>
<tr><td>Domestic</td><td>2,508</td><td></td></tr>
<tr><td>Commercial</td><td>8,062</td><td></td></tr>
<tr><td>Industrial</td><td>329</td><td></td></tr>
<tr><td>Total</td><td>10,899</td><td></td></tr>
<tr><td>Change Over Previous Year</td><td>-0.3%</td><td></td></tr>
</table>
</td><td>XXX</td></tr>
</table>

(d)	**Increase / decrease in sales to Mainland** *(if applicable)*	n.a.
(e)	**Decrease in Tariff Stabilisation Fund Balance** (Owing to the reduction of basic tariff of 1.4 cent in early 2011, TSF balance reduced by <u>$0.16 billion</u> from $0.54 billion at the beginning of 2011 to estimated $0.38 billion at end 2011. In order to further relieve the pressure of tariff increase, TSF balance will be reduced by another <u>$0.29 billion</u> to estimated $0.09 billion at end 2012; Total TSF reduction in 2012 will be <u>$0.13 billion</u> higher than 2011.)	-1.4
(f)	**Others** (Increase in Scheme of Control taxation* and reduction in other revenue) *Details please refer to item (2) (b) & (c)	+0.6
	Sub-total (Basic Tariff):	+1.0

Notes to the confidential figures:

1. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2012 profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

2. Disclosure of future sales growth might indicate to suppliers HK Electric's underlying demands which could increase their bargaining power in prices setting leading to higher prices to be borne by the Hong Kong citizens. This might also reveal HK Electric's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

Rationales for the Increase of Basic Tariff in 2012

Year	Basic Tariff		
	¢/unit	Yr-to-Yr Adjustment	Cumulative Adjustment
2008	116.9	---	• vs. 2008↓19.5% • vs. 2009/10↓0.4¢
2009	94.5	-19.2%	
2010	94.5	0%	
2011	93.1	**-1.5% (-1.4¢)**	
2012	94.1	+1.1% (+1.0¢)	

Since the implementation of the new Scheme of Control Agreement in 2009, HK Electric had tried to maintain stable basic tariff level. In 2011, we had reduced the basic tariff by 1.4 cent (-1.5%). Although we have increased the 2012 basic tariff by 1 cent (1.1%), the basic tariff level is still lower than the 2009 level. When compared with the 2012 forecast basic tariff of 98.6 cents in 2009-2013 Development Plan, the 2012 basic tariff level is still lower by 4.6%.

(2)	**Fuel Clause Charge**	
	Rationales for tariff increase	**Tariff impact (c / kWh)**
(a)	**Increase in Fuel Price** (Fuel costs expenses increase from estimated $5.4 billion in 2011 to estimated $6.4 billion in 2012 mainly due to international fuel prices fluctuations resulting in rise in fuel prices. Please refer to Original Proposal Note 1 for details.)	+8.5

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

(b)	**Correction for the under-recovery of fuel clause charge in 2011** (i.e. the total Fuel Clause Charge received minus "difference between Standard Fuel Cost and Actual Fuel Cost") (Increase of the Fuel Clause Recovery Account deficit from $0.57 billion at end 2010 to estimated $0.89 billion in end 2011; the change is $0.32 billion)	+3.0
(c)	**Increase in the Fuel Clause Recovery Account deficit to reduce tariff increase** (Increase of the Fuel Clause Recovery Account deficit from estimated $0.89 billion at end 2011 to estimated $0.90 billion in end 2012; the change is $0.01 billion)	-
(d)	Others	
	Sub-total (Fuel Clause Charge):	+11.5
	Grand total:	+12.5

Original Proposal Note 1

Fuel consumed (Tera-joules)	2011 (Estimate)	2012 (Estimate)
• Coal	81,561	XXXXX
• Natural Gas	30,282	XXXXX
• Oil	597	XXXXX
Total	112,440	XXXXX

Average Fuel Price (HK$ per GJ)	2011 (Estimate)	2012 (Estimate)
• Coal	35.3	XXXX
• Natural Gas	79.9	XXXX
• Oil	123.2	XXXX
Overall	47.8	XXXX

Total Fuel Cost ($ million)	2011 (Estimate)	2012 (Estimate)
• Coal	2,879	XXXX
• Natural Gas	2,419	XXXX
• Oil	74	XXXX
• Others	25	XXXX
Overall	5,397	XXXX

Actual Fuel Costs pass through to customers through the following 2 accounts:

Standard fuel costs (Include in basic tariff)	1,782	XXXX
Fuel Clause Recovery Account	3,615	XXXX
Overall	5,397	XXXX

Notes to the confidential figures:

- Disclosure of fuel demand and price forecasts would materially disadvantage HK Electric in negotiations in setting price or volume delivery terms with fuel suppliers, resulting in higher prices and hence increased fuel clause charges to be borne by Hong Kong citizens.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

2A The Interim proposed tariff increase submitted to the HKSAR Government by HK Electric in December 2011

	2011 Tariff c/kWh	Interim Proposal for 2012 Tariff c/kWh	Adjustment %
Basic Tariff	93.1	94.1	1.1% +1.0 cent
Fuel Clause Charge	30.2	38.8	28.5% +8.6 cent
Net Tariff	123.3	132.9	7.8% +9.6 cent
Year End Balance ($ billion)			
- Tariff Stabilisation Fund (Estimate)	0.40B	0.13B	
- Fuel Clause Recovery Account (Estimate)	(1.04B)	(1.17B)	

Interim Proposal:
As our Original Proposal was submitted in mid-October, we had only got 2011 operating results for three quarters only. Our forecast for 2012, especially on fuel, was still very preliminary.

After review, the tariff adjustment proposal was to keep the basic tariff increased by 1 cent while the increase in fuel clause charge was adjusted downwards to 8.6 cents. The main rationale for this was that we had increased the debit balance of the Fuel Clause Recovery Account from $1.04 billion in 2011 to $1.17 billion in 2012. The net tariff increase would then become 9.6 cents (+7.8%). As we had increased the debit balance of the Fuel Clause Recovery Account to alleviate the tariff increase that would indirectly cause an increase in deferred tax, the 2012 Tariff Stabilisation Fund balance became $0.13 billion.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

The rationales and calculation methods [and details] of the Interim Proposal of HK Electric submitted to the HKSAR Government:-

<table>
<tr><th></th><th>Rationales for tariff increase</th><th>Tariff impact (c / kWh)</th></tr>
<tr><td>(1)</td><td>Basic Tariff</td><td></td></tr>
<tr><td>(a)</td><td>Increase in Average Net Fixed Asset

(Increase from estimated $XXX billion in 2011 to estimated $XXX billion in 2012, the major components include capital expenditure on transmission projects, generation projects and corporate development projects)

Note: Average Net Fixed Assets for any year means the average, for that year, of the opening and closing balances of Net Fixed Assets.</td><td>XXX</td></tr>
<tr><td>(b)</td><td>Increase in operating expenses

(Increase from estimated $2.97 billion in 2011 to estimated $3.15 billion in 2012 mainly due to the rise in material prices & employee expenses and increase in depreciation)

Details please refer to item 5 below</td><td>+1.7</td></tr>
<tr><td>(c)</td><td>Increase in local electricity sales

(The sales of electricity increase from estimated 10.9 billion kWh in 2011 to estimated 11.0 billion kWh in 2012. The major changes in different categories are tabled as follows:)

<table>
<tr><th>Million kWh</th><th>2011 Estimate</th><th>2012 Estimate</th></tr>
<tr><td>Domestic</td><td>2,508</td><td></td></tr>
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</td><td>XXX</td></tr>
<tr><td>(d)</td><td>Increase / decrease in sales to Mainland (if applicable)</td><td>n.a.</td></tr>
</table>

(e)	**Decrease in Tariff Stabilisation Fund Balance** (Owing to the reduction of basic tariff of 1.4 cent in early 2011, TSF balance reduced by $0.14 billion from $0.54 billion at the beginning of 2011 to estimated $0.40 billion at end 2011; In order to further relieve the pressure of tariff increase, TSF balance will be reduced by another $0.27 billion to estimated $0.13 billion at end 2012; Total TSF reduction in 2012 will be $0.13 billion higher than 2011.)	-1.4
(f)	**Others** (Increase in Scheme of Control taxation* and reduction in other revenue) *Details please refer to item (2) (b) & (c)	+0.6
	Sub-total (Basic Tariff):	+1.0

Notes to the confidential figures:

1. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2012 profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

2. Disclosure of future sales growth might indicate to suppliers HK Electric's underlying demands which could increase their bargaining power in prices setting leading to higher prices to be borne by the Hong Kong citizens. This might also reveal HK Electric's future fixed assets investment as well as future profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Rationales for the Increase of Basic Tariff in 2012

Year	Basic Tariff		
	¢/unit	Yr-to-Yr Adjustment	Cumulative Adjustment
2008	116.9	---	• vs. 2008↓19.5% • vs. 2009/10↓0.4¢
2009	94.5	-19.2%	
2010	94.5	0%	
2011	93.1	**-1.5% (-1.4¢)**	
2012	94.1	+1.1% (+1.0¢)	

Since the implementation of the new Scheme of Control Agreement in 2009, HK Electric had tried to maintain stable basic tariff level. In 2011, we had reduced the basic tariff by 1.4 cent (-1.5%). Although we have increased the 2012 basic tariff by 1 cent (1.1%), the basic tariff level is still lower than the 2009 level. When compared with the 2012 forecast basic tariff of 98.6 cents in 2009-2013 Development Plan, the 2012 basic tariff level is still lower by 4.6%.

(2)	**Fuel Clause Charge**	
	Rationales for tariff increase	**Tariff impact (c / kWh)**
(a)	**Increase in Fuel Price** (Fuel costs expenses increase from estimated $5.55 billion in 2011 to estimated $6.20 billion in 2012 mainly due to international fuel prices fluctuations resulting in rise in fuel prices. Please refer to Interim Proposal Note 1 for details.)	+5.5

Annex 2B

(b)	**Correction for the under-recovery of fuel clause charge in 2011** (i.e. the total Fuel Clause Charge received minus "difference between Standard Fuel Cost and Actual Fuel Cost") (Increase of the Fuel Clause Recovery Account deficit from $0.57 billion at end 2010 to estimated $1.04 billion in end 2011; the change is $0.47 billion)	+4.3
(c)	**Increase in the Fuel Clause Recovery Account deficit to reduce tariff increase** (Increase of the Fuel Clause Recovery Account deficit from estimated $1.04 billion at end 2011 to estimated $1.17 billion in end 2012; the change is $0.13 billion)	-1.2
(d)	Others	
	Sub-total (Fuel Clause Charge):	+8.6
	Grand total:	+9.6

Interim Proposal Note 1

Fuel consumed (Tera-joules)	2011 (Estimate)	2012 (Estimate)
• Coal	80,581	XXXXX
• Natural Gas	31,424	XXXXX
• Oil	570	XXXXX
Total	112,575	XXXXX

Average Fuel Price (HK$ per GJ)	2011 (Estimate)	2012 (Estimate)
• Coal	35.2	XXX
• Natural Gas	83.1	XXX
• Oil	123.0	XXX
Overall	49.0	XXX

Total Fuel Cost ($ million)	2011 (Estimate)	2012 (Estimate)
• Coal	2,840	XXX
• Natural Gas	2,611	XXX
• Oil	70	XXX
• Others	25	XXX
Overall	5,546	XXX

Actual Fuel Costs pass through to customers through the following 2 accounts:

Standard fuel costs (Included in basic tariff)	1,785	XXX
Fuel Clause Recovery Account	3,761	XXX
Overall	5,546	XXX

Notes to the confidential figures:

- Disclosure of fuel demand and price forecasts would materially disadvantage HK Electric in negotiations in setting price or volume delivery terms with fuel suppliers, resulting in higher prices and hence increased fuel clause charges to be borne by Hong Kong citizens.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

3. The rationales and calculation methods [and details] of the Final Proposal of HK Electric submitted to the HKSAR Government:-

Extract – Tariff Review Progress

	Mid-Oct 2012 Original Proposal for 2012 Tariff cent/kWh	12/2012 Interim Proposal for 2012 Tariff cent/kWh	13/12/2012 Final Proposal for 2012 Tariff cent/kWh
Basic Tariff	94.1 +1.0 cent	94.1 +1.0 cent	94.1% +1.0 cent
Fuel Clause Charge	**41.7** +11.5 cent	**38.8** +8.6 cent	**37.0** +6.8 cent
Net Tariff	135.8 +12.5 cent	131.1 +9.6 cent	131.1 +7.8 cent
Adjustment %	10.1%	7.8%	6.3%
Year end Balance ($ billion)			
- Tariff Stabilisation Fund (Estimate)	0.09B	0.13B	0.17B
- **Fuel Clause Recovery Account (Estimate)**	**(0.9B)**	**(1.17B)**	**(1.38B)**

As seen from the above table, HK Electric had increased the debit balance of the Fuel Clause Recovery Account from around $0.9B in 2008 to reach a historical high value of around $1.4B in 2012. This action was to alleviate the tariff increase to reduce the pressure on Hong Kong citizens. As we had increased the debit balance of the Fuel Clause Recovery Account to alleviate the tariff increase that would indirectly cause an increase in deferred tax, the 2012 Tariff Stabilisation Fund balance became $0.17 billion.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

Extract – Rationales for Tariff Increase under the Final Proposal

	Rationales for tariff increase	Tariff impact (cent / kWh)
(1)	**Basic Tariff**	
(a)	**Increase in Average Net Fixed Asset (~1.5%)** Mainly due to the rise in material prices & employee expenses and increase in depreciation	+0.8
(b)	**Increase in operating expenses (Including sundry material wages expenses and depreciation, ~4 to 6%)**	+1.7
(c)	**Increase in local electricity sales (~1%)**	-0.7
(d)	**Decrease in Tariff Stabilisation Fund Balance**	-1.0
(f)	**Others (Mainly increase in Scheme of Control taxation)**	+0.2
	Sub-total (Basic Tariff):	+1.0
(2)	**Fuel Clause Charge**	
(a)	**Fuel costs expenses increase from estimated \$5.55 billion in 2011 to estimated \$6.20 billion in 2012 mainly due to international fuel prices fluctuations resulting in rise in fuel prices.**	+5.5
(b)	**Correction for the under-recovery of fuel clause charge in 2011 of \$0.47 billion**	+4.3
(c)	**Increase in the Fuel Clause Recovery Account deficit to reduce tariff increase of \$0.34 billion**	-3.0
	Sub-total (Fuel Clause Charge):	+6.8
	Grand Total:	+7.8

Annex 2B

(i) Final Tariff Adjustment

	2011 Tariff cent / kWh	13/12/2012 Final Proposal for 2012 Tariff cent / kWh	Adjustment %
Basic Tariff	93.1	94.1	1.1% +1.0cent
Fuel Clause Charge	30.2	37.0	22.5% +6.8 cent
Special Rebate	-	-	-
Net Tariff	123.3	131.1	6.3% +7.8 cent

Year end Balance ($ billion)		
- Tariff Stabilisation Fund (Estimate)	0.4B	0.17B
- Fuel Clause Recovery Account (Estimate)	(1.04B)	(1.38B)

Final Proposal:

Basic tariff increase maintained by 1 cent while the increase in fuel clause charge was adjusted downwards to 6.8 cents. The main rationale for this was that we had further increased the debit balance of the Fuel Clause Recovery Account from $1.04 billion in 2011 to $1.38 billion in 2012. The net tariff increase would then become 7.8 cents (+6.3%). As we had increased the debit balance of the Fuel Clause Recovery Account to alleviate the tariff increase that would indirectly cause an increase in deferred tax, the 2012 Tariff Stabilisation Fund balance became $0.17 billion.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

(ii) Rationales for tariff increase

<table>
<tr><th></th><th>Rationales for tariff increase</th><th>Tariff impact
(c / kWh)</th></tr>
<tr><td>(1)</td><td>Basic Tariff</td><td></td></tr>
<tr><td>(a)</td><td>Increase in Average Net Fixed Asset

(Increase from estimated $XXX billion in 2011 to estimated $XXX billion in 2012, the major components include capital expenditure on transmission projects, generation projects and corporate development projects)

Note: Average Net Fixed Assets for any year means the average, for that year, of the opening and closing balances of Net Fixed Assets.</td><td>XXX</td></tr>
<tr><td>(b)</td><td>Increase in operating expenses

(Increase from estimated $2.97 billion in 2011 to estimated $3.15 billion in 2012 mainly due to the rise in material prices & employee expenses and increase in depreciation)

Details please refer to item 5 below</td><td>+1.7</td></tr>
<tr><td>(c)</td><td>Increase in local electricity sales

(The sales of electricity increase from estimated 10.9 billion kWh in 2011 to estimated 11.0 billion kWh in 2012. The major changes in different categories are tabled as follows:)

<table>
<tr><th>Million kWh</th><th>2011 Estimate</th><th>2012 Estimate</th></tr>
<tr><td>Domestic</td><td>2,508</td><td></td></tr>
<tr><td>Commercial</td><td>8,062</td><td></td></tr>
<tr><td>Industrial</td><td>329</td><td></td></tr>
<tr><td>Total</td><td>10,899</td><td></td></tr>
<tr><td>Change Over Previous Year</td><td>-0.3%</td><td></td></tr>
</table>
</td><td>XXX</td></tr>
<tr><td>(d)</td><td>Increase / decrease in sales to Mainland (if applicable)</td><td>n.a.</td></tr>
</table>

(e)	**Decrease in Tariff Stabilization Fund Balance** (Owing to the reduction of basic tariff of 1.4 cent in early 2011, TSF balance reduced by $0.14 billion from $0.54 billion at the beginning of 2011 to estimated $0.40 billion at end 2011; In order to further relieve the pressure of tariff increase, TSF balance will be reduced by another $0.23 billion to estimated $0.17 billion at end 2012; Total TSF reduction in 2012 will be $0.09 billion higher than 2011.)	-1.0
(f)	**Others** (Increase in Scheme of Control taxation* and reduction in other revenue) *Details please refer to item (4) (b) & (c)	+0.2
	Sub-total (Basic Tariff):	+1.0

Notes to the confidential figures:

1. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2012 profits. Any disclosure of confidential information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements. Any person using confidential information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

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Annex 2B

Rationales for the Increase of Basic Tariff in 2012

Year	Basic Tariff		
	¢/unit	Yr-to-Yr Adjustment	Cumulative Adjustment
2008	116.9	---	• vs. 2008↓19.5% • vs. 2009/10↓0.4¢
2009	94.5	-19.2%	
2010	94.5	0%	
2011	93.1	**-1.5% (-1.4¢)**	
2012	94.1	+1.1% (+1.0¢)	

Since the implementation of the new Scheme of Control Agreement in 2009, HK Electric had tried to maintain stable basic tariff level. In 2011, we had reduced the basic tariff by 1.4 cent (-1.5%). Although we have increased the 2012 basic tariff by 1 cent (1.1%), the basic tariff level is still lower than the 2009 level. When compared with the 2012 forecast basic tariff of 98.6 cents in 2009-2013 Development Plan, the 2012 basic tariff level is still lower by 4.6%.

(2)	**Fuel Clause Charge**	
	(Please refer to item 4 below for details)	
	Sub-total (Fuel Clause Charge):	+6.8
	Grand total:	+7.8

4. The current [i.e. Final Proposal] details of the Fuel Clause Accounts and the derivation of the Fuel Clause Charge adjustments Computation

	Rationales for tariff increase	Impact to Fuel Clause Charge (c / kWh)
(a)	**Increase in Fuel Price** (Fuel costs expenses increase from estimated \$5.55 billion in 2011 to estimated \$6.20 billion in 2012 mainly due to international fuel prices fluctuations resulting in rise in fuel prices. Please refer to Final Proposal Note 1 for details.)	+5.5
(b)	**Correction for the under-recovery of fuel clause charge in 2011** (i.e. the total Fuel Clause Charge received minus "difference between Standard Fuel Cost and Actual Fuel Cost") (Increase of the Fuel Clause Recovery Account deficit from \$0.57 billion at end 2010 to estimated \$1.04 billion in end 2011; the change is \$0.47 billion)	+4.3
(c)	**Increase in the Fuel Clause Recovery Account deficit to reduce tariff increase** (Increase of the Fuel Clause Recovery Account deficit from estimated \$1.04 billion at end 2011 to estimated \$1.38 billion in end 2012; the change is \$0.34 billion)	-3.0
(d)	Others	-
	Sub-total (Fuel Clause Charge):	
	Grand total:	+6.8

Final Proposal Note 1

Fuel consumed (Tera-joules)	2011 (Estimate)	2012 (Estimate)
• Coal	80,581	XXXXX
• Natural Gas	31,424	XXXXX
• Oil	570	XXXXX
Total	112,575	XXXXX

Average Fuel Price (HK$ per GJ)	2011 (Estimate)	2012 (Estimate)
• Coal	35.2	XXX
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Overall	49.0	XXX

Total Fuel Cost ($ million)	2011 (Estimate)	2012 (Estimate)
• Coal	2,840	XXX
• Natural Gas	2,611	XXX
• Oil	70	XXX
• Others	25	XXX
Overall	5,546	XXX

Actual Fuel Costs pass through to customers through the following 2 accounts:

Standard fuel costs (Included in basic tariff)	1,785	XXX
Fuel Clause Recovery Account	3,761	XXX
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Notes to the confidential figures:

- Disclosure of fuel demand and price forecasts would materially disadvantage HK Electric in negotiations in setting price or volume delivery terms with fuel suppliers, resulting in higher prices and hence increased fuel clause charges to be borne by Hong Kong citizens.

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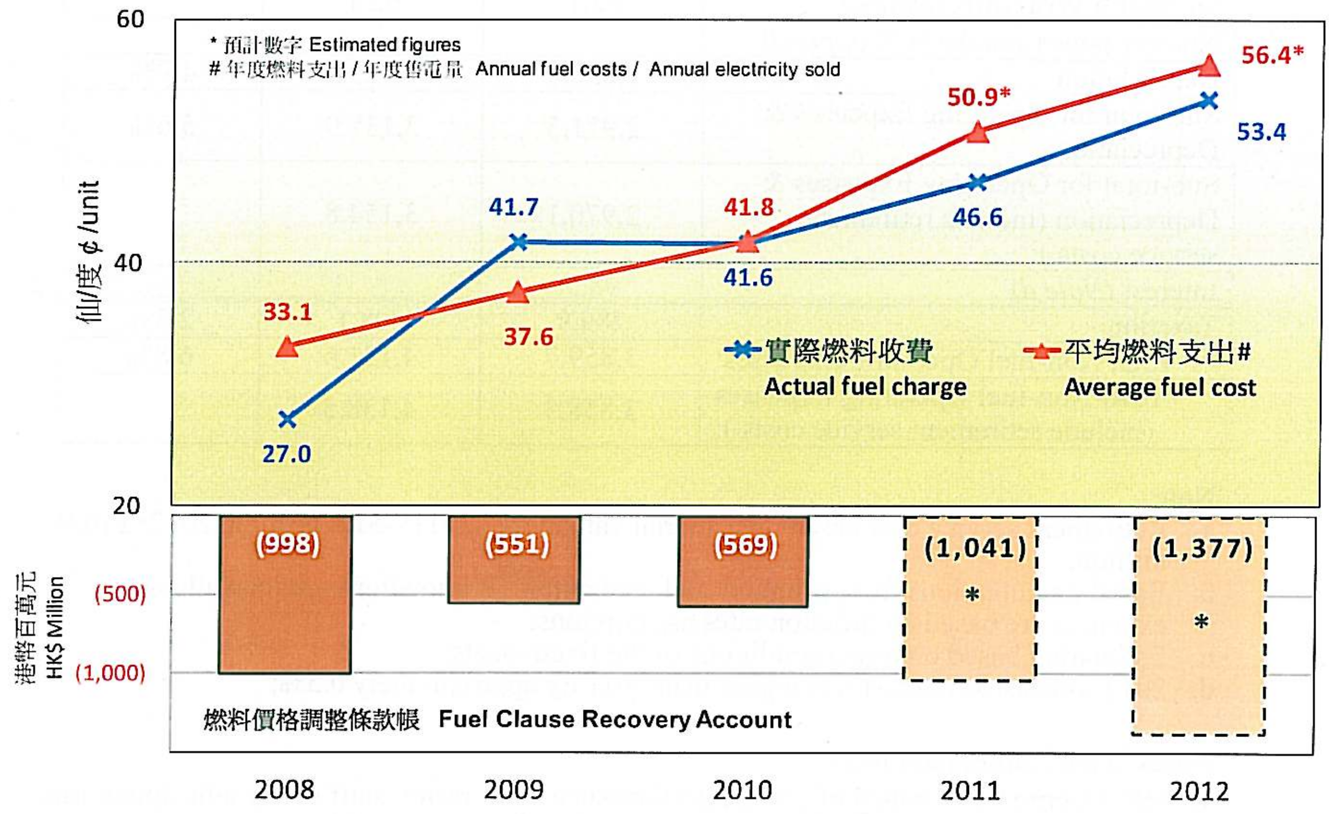
Annex 2B

Rationales for the Increase of Fuel Clause Charge

Under the prevailing Scheme of Control Agreement, the basic tariff includes a standard fuel cost which has been maintained relatively stable at around 16¢/unit over the past several years. Every year, HK Electric would adjust the fuel clause charge annually according to the change in fuel prices. The actual fuel charge will be the standard fuel cost plus the fuel clause charge. In 2012, the actual per-unit fuel charge is 53.4¢ (i.e. standard fuel cost of 16.4¢ plus fuel clause charge of 37¢).

For many years, HK Electric has not fully recovered our actual fuel cost and this has resulted in deficits in our Fuel Clause Recovery Account. The chart below shows the trends of the actual fuel charge and the average fuel cost. Deficits in the Fuel Clause Recovery Account would occur when the actual fuel charge is lower than the average fuel cost implying HK Electric could not recover fuel expenses from customers. In fact, the deficit is forecast to further increase to HK$1.4 billion by end 2012. Hence there is no room to reduce more the fuel clause charge.

Fuel Clause Recovery Account Deficit Status



Annex 2B

5. The detailed items of the operating expenses and the respective budget figures.

Items for Non-Fuel Operating Expenses	Forecast Expense for 2011 ($ million) Estimate	Forecast Expense for 2012 ($ million) Estimate	% Change	
Operating Expenses				
Employee expenses (exclude retirement service costs) *(Note a)*	405.8			1
Materials & Services *(Note b)*	146.5	155.0	5.8%	
Administration Exp.	200.1	213.7	6.8%	
Loan charges				
Government Rent & Rates	303.8	314.4	3.5%	
Fixed Asset Disposal				
Exchange Gain /Loss				
Pumped Storage Service Fee *(if applied)*				
Others (Insurance)	27.2	28.5	4.8%	
Sub-total for Operating Expenses:	1,083.4	1,145.0	5.7%	
Contingency		5.0		
Stocks/FA Write-offs *(Note c)*	52.1	62.1		
Nuclear power purchase *(if applied)*				
Depreciation	1,836.0	1,925.8	4.9%	
Sub-total for Operating Expenses & Depreciation:	2,971.5	3,137.9	5.6%	
Sub-total for Operating Expenses & Depreciation (include retirement service costs):	2,970.1	3,154.8		
Interest *(Note d)*	98.3			2
Taxation	789.9	808.1	2.3%	
Total Non-fuel Operating Expenses:	3,859.7	4,121.6	6.8%	
Total Non-fuel Operating Expenses (include retirement service costs):	3,858.3	4,138.5		

<u>Note</u>

a. Retirement service cost based on actuarial valuation – 2011: -$1.4 million, 2012: $16.9 million.
b. Based on quotations from suppliers and contractors. If quotations are unavailable, expenses are based on inflation rates assumptions;
c. Estimation based on usage conditions of the fixed assets;
d. 2012 forecasted interest rate higher than 2011 by approximately 0.5%;

<u>Notes to the confidential figures:</u>

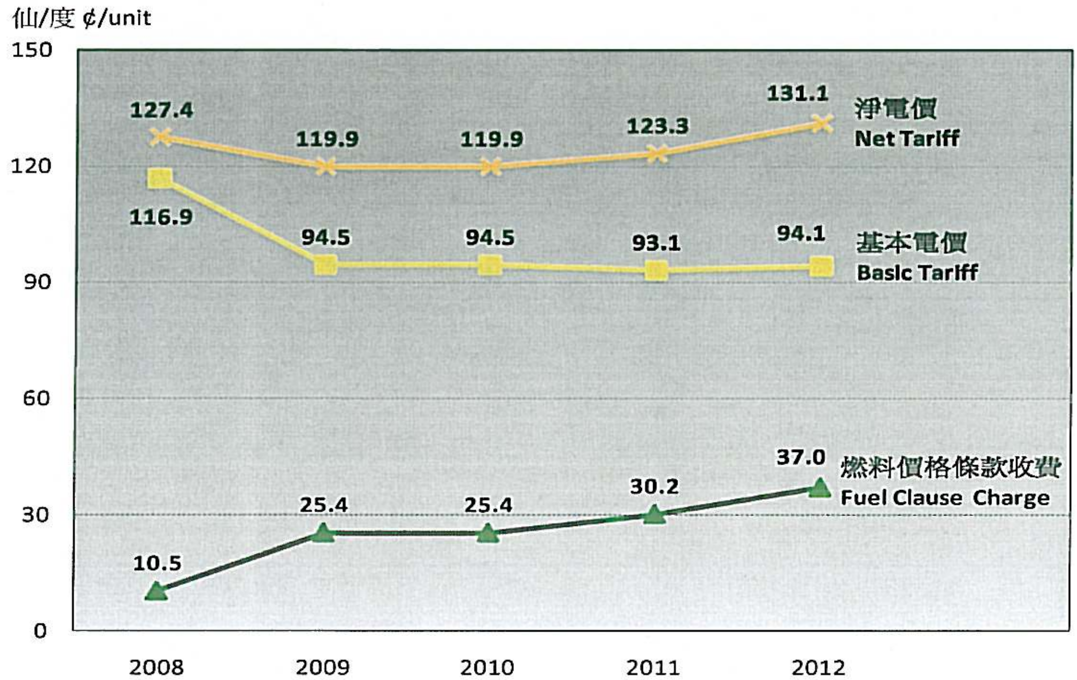
1. HK Electric has a policy of pay for performance. As a result, staff salary adjustment rate will be varied by individual. Disclosing such detail may create false expectation and employee relations will then be jeopardized.
2. Disclosure of this confidential funding information could materially affect HK Electric's borrowing costs, leading to increased costs to Hong Kong citizens.

In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

Annex 2B

<u>2012 Annual Tariff Review Conclusion</u>

Over the previous years, HK Electric basic tariff rates had been maintained at a stable level. Due to the prevailing rise in fuel costs, there will be a need to increase the fuel clause charge. As shown in the charts below, the underlying causes of the rise in the net tariff in recent years were mainly due to the rise in fuel costs. For the 2012 tariff increase of 7.8 cents, 6.8 cents (87.2%) are related to increase in fuel costs.



Note: 2010 Net Tariff does not include 0.1 cent Rate Reduction Rebate

* * *