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7 January 2013

By Email

Mr Derek Lo
Clerk to Panel
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Lo,

**Panel on Economic Development
Follow up to meeting on 11 December 2012
Annual Tariff Reviews with the two power companies**

I refer to item 12 in the List of Follow-up Actions (position as at 13 December 2012) and attach replies from HKE and CLP (in Annexes A and B respectively) for your further action please.

Item (e) - Increase in Fuel Costs

To effectively combat climate change and improve our air quality, the previous Administration consulted the public in the Hong Kong's Climate Change Strategy and Action Agenda Consultation Document published in 2010 to change the fuel mix by substantially reducing the reliance on coal to less than 10% and increasing the share of natural gas and renewable energy to about 40% and 3-4% respectively in 2020, with the remaining balance of about 50% to be met with more imported nuclear energy from the Mainland.

Following the Fukushima incident, various countries, including the Mainland, have been reviewing the safe use of nuclear power.

It is the responsibility of this Administration to review anew Hong Kong's future fuel mix, taking into account the development in the international arena and views of the local community, while striving to strike a balance among the four energy policy objectives of reliability, affordability, safety and environmental protection.

The previously proposed fuel mix (50:40:10) is an option to be explored, while we should also note a number of factors:

- (a) with the implementation of the 2nd and 3rd Technical Memorandum pursuant to the Air Pollution Control Ordinance (Cap.311), the two power companies will need to meet the emission caps in the coming years through using more natural gas (up to 50% of locally generated electricity);
- (b) it is uncertain whether Hong Kong can purchase more nuclear power than what is provided under contract currently (about 23% of total electricity use); and
- (c) at this stage in exploring the future fuel mix, it is prudent to include consideration on what potentials there may be for additional nuclear electricity import, in order to look broadly at how Hong Kong can achieve reliability, affordability, safety and environmental protection.

It is therefore difficult at this point in time to estimate what may be the costs of further nuclear imports vs. coal and natural gas prices beyond 2020. Firstly, it is unclear if Hong Kong can import more nuclear electricity; and secondly, assuming additional import is possible from Guangdong, the price will be affected by the location of the nuclear plant, the distance and mode of transmission network (overhead line by towers on land or submarine cable), security and reliability requirement, etc and hence the cost of investment in transmission infrastructure. The unit purchase price of the additional nuclear import, as well as possible load management and wheeling fee, is also yet to be determined. Moreover, the price of coal and natural gas will be subject to international market fluctuation, not to mention the possible infrastructural requirements to support additional gas supply. As such, we would not be able to work out any meaningful estimates on future fuel cost against this background. We also prefer not to make an estimate under such uncertainties. We will of course fully consult the public once we have

explored supply possibilities for all energy sources and propose fuel mix options for public discussion.

The motion passed at the meeting on 11 December 2012

The Government's replies to Dr Hon Elizabeth QUAT's motion passed at the meeting on 11 December 2012 are as follows -

In scrutinising the tariff proposals of the two power companies, the Government has, pursuant to the Scheme of Control Agreements (SCAs), endeavoured to perform the gate-keeping duties. In setting the level of electricity tariff adjustments each year with the two power companies, we take into account a number of factors including electricity demand and sales, operating costs, fuel prices, capital investments, balances in the Fuel Clause Recovery Accounts and Tariff Stabilisation Funds etc, and strive to lower the rate of increase as much as possible.

Before the commencement of the Tariff Review this year, the Government have actively requested both power companies to enhance their tariff structure with a view to providing relief to electricity users with lower electricity consumption and to promoting energy saving. The two power companies have responded positively to Government's request by enhancing the progressive tariff structure of domestic customers; and for the first time, reduce or freeze the tariff of customers with low electricity consumption by means of discounts or rebates. We consider that the final tariff adjustment proposals of the two power companies have already taken into consideration all energy policy objectives, including the reliability in electricity supply, environmental-friendliness and reasonable price.

In determining the tariff adjustment level with the two power companies in coming years, we will continue to perform the gate-keeping duties with our best endeavour, negotiate the adjustment levels with the two power companies with reference to the circumstances of the year, in order to safeguard the interests of the public.

The SCAs stipulate that the two power companies and the Government shall have the right during 2013 to request modification of any part of the current SCAs, and mutual agreement is needed before implementing any proposed modification. The Government is making preparation for a mid-term review of the SCAs with the two power companies respectively in early 2013 in accordance with the SCAs.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Vyora Yau', with a long horizontal stroke extending to the right.

(Ms Vyora Yau)
for Secretary for the Environment

Follow-up to LegCo ED Panel Meeting on 11 December 2012 – Reply from HK Electric
跟進 2012 年 12 月 11 日經濟發展事務委員會會議 - 港燈回覆

The Administration and the two power companies were requested to provide the following information:-

(a) in relation to the two power companies, details of the increase in tariff, in terms of percentage, for different tariff blocks of residential and business customers

家庭供電價目比較

Domestic Tariff Comparison

用電度數 (分段計) Consumption (In Blocks)	2013 每度電淨電價 2013 Net Unit Rate (元 HK\$)	2012 每度電淨電價 2012 Net Unit Rate (元 HK\$)	分段加幅 Increase Per Block
最初 150 度 For each of the first 150 units	0.933	0.933	0.0%
以後 For each of the next			
150 度 units (151 - 300)	1.072	1.048	2.3%
200 度 units (301 - 500)	1.211	1.163	4.1% #
200 度 units (501 - 700)	1.447	1.428	1.3% #
300 度 units (701 - 1,000)	1.586	1.543	2.8% #
500 度 units (1,001 - 1,500)	1.725	1.658	4.0%
由 1,501 度起 From 1,501 units and above	1.864	1.683	10.8%

「最惜節能優惠」

由二零一三年一月一日起，若客戶在任何一個月內用電不超過一百度，可享有電費九五折優惠。

“Super Saver Discount”

Effective 1 January 2013, customers with consumption not more than 100 units in any month will enjoy a 5% discount on electricity tariff.

#: 301-500 / 501-700 / 701-1,000 度電的不平均分段加幅，主要是調整過往級與級之間的不平均幅度。

#: The uneven increases in 301-500 / 501-700 / 701-1,000 unit tariff blocks are required to even out the steps between blocks.

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電價調整對家庭客戶的影響

Impact of Tariff Adjustment on Domestic Customers

每月用電 Monthly Consumption (度 Units)	2013 每月電費 2013 Monthly Charge (元 HK\$)	每度電平均電價 Average Unit Rate (元 HK\$)	實際加幅 Actual Increase 元 HK\$ (%)
0 – 100 *	≤ 88.6	0.886	下調 Reduction ≤ 4.7 (-5.0%)
101 – 150	≤ 140.0	0.933	不變 No change
151 – 300	≤ 300.8	≤ 1.003	≤ 3.6 (≤ 1.2%)
301 – 500	≤ 543.0	≤ 1.086	≤ 13.2 (≤ 2.5%)
501 – 1,500	≤ 2,170.7	≤ 1.447	≤ 63.4 (≤ 3.0%)
> 1,500	> 2,170.7	> 1.447	> 63.4 (> 3.0%)

*:扣除「最惜節能優惠」九五折後

*: After 5% “Super Saver Discount”

商業、工業及雜項供電價目比較

Commercial, Industrial & Miscellaneous Tariff Comparison

用電度數 (分段計) Consumption (In Blocks)	2013 每度電淨電價 2013 Net Unit Rate (元 HK\$)	2012 每度電淨電價 2012 Net Unit Rate (元 HK\$)	分段加幅 Increase Per Block
最初 500 度 For each of the first 500 units	1.316	1.316	0.0%
以後 For each of the next			
1,000 度 units (501 - 1,500)	1.356	1.316	3.0%
18,500 度 units (1,501 - 20,000)	1.467	1.421	3.2%
由 20,001 度起 From 20,001 units and above	1.494	1.446	3.3%

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電價調整對商業、工業及雜項客戶的影響

Impact of Tariff Adjustment on Commercial, Industrial & Miscellaneous Customers

每月用電 Monthly Consumption (度 Units)	2013 每月電費 2013 Monthly Charge (元 HK\$)	每度電平均電價 Average Unit Rate (元 HK\$)	實際加幅 Actual Increase 元 HK\$ (%)
0 – 500	≤ 658.0	1.316	不變 No change
501 – 1,500	≤ 2,014.0	≤ 1.343	≤ 40.0 (≤ 2.0%)
1,501 – 20,000	≤ 29,153.5	≤ 1.458	≤ 891.0 (≤ 3.2%)
> 20,000	> 29,153.5	> 1.458	> 891.0 (> 3.2%)

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(c) the reasons for the increase in the 2013 forecast operating expenses of The Hong Kong Electric Co. (Table 3 of Annex HEC-B)

參考附件 HEC-B 表三。

港燈一貫以嚴格監控營運開支為重要經營目標，惟影響 2012 及 2013 年的營運開支，主要是幾個我們不能控制的因素。其中港燈所訂立的不同工程和服務合約，都是經由多個供應商或承辦商競投報價，而該等價格亦受當時市場情況影響。此外，一次性的開支如 2012 年稅例改變而獲得的稅務寬免，和不同的營運情況及相關事項，亦無可避免引致年度開支的差異。

現就立法會議員對 2013 年營運開支所提出的問題，我們詳細說明如下：

非燃料開支項目	2012 年 預算開支 (百萬元) (估計)	2013 年 預算開支 (百萬元) (估計)	%變幅
營運開支			
員工開支(不包括退休基金)(註 a)	431.3		
原材料及服務(註 b)	158.8	177.7	11.9%
行政開支(不包括退休基金)(註 a)	170.6	178.8	4.8%
貸款費用	1.2		
政府地租及差餉	228.2	239.6	5.0%
其他 (保險)	27.0	29.1	7.8%
營運開支小計:	1,017.1	1,076.3	5.8%
應急開支撥備	5.0	5.0	
存貨/固定資產註銷及資產停用撥備 (註 c)	60.2	72.3	
折舊	1,918.4	2,008.2	4.7%
營運開支及折舊小計:	3,000.7	3,161.8	5.4%
營運開支及折舊小計(包括退休基金估算):	3,005.5	3,234.2	
稅項	834.0	903.0	8.3%
燃料開支以外的總營運支出:	3,834.7	4,064.8	6.0%
燃料開支以外的總營運支出(包括退休基金估算):	3,839.5	4,137.2	

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註:

- (a) 退休基金據精算師估算及相關會計準則及法規 [員工開支含- 2012 年：9.1 百萬元，2013 年：69.5 百萬元; 行政開支含- 2012 年：(4.3 百萬元)，2013 年：2.9 百萬元]
- (b) 根據供應商或承辦商報價，若無供應商或承辦商報價，以通脹率估算
- (c) 按當年資產預計使用情況估算

機密資料註釋:

1. 港燈的薪酬政策是按員工表現而定，因此員工薪酬調整率也因個別表現而不同。上述披露會令員工有不正確的期望而損害勞資關係。
2. 披露機密融資資料可嚴重影響港燈借貸成本，令香港市民承擔更高的費用。

員工開支部份：港燈的薪酬政策以提供有效率和成效服務為目標，確保薪酬按員工表現而定，並足以吸引、挽留和激勵具合適才幹的員工。我們的聘用條款具競爭力但不會偏高，並與勞動市場相若。

原材料及服務及行政開支部份：主要是工程合約、物料價格、及其它一次性開支增加所致，這些都是我們不可控制的。

作為在此參考，根據建築署和具良好聲譽的測量行 - 利比的紀錄，香港最新的房屋及建造價格升幅指數皆是 9%。因此，近期訂立的電機工程合約價格增幅遠高於今年通脹，價格增幅介乎高單位數至雙位數百份比。一般合約如膳食供應、保安、清潔、巴士接送服務及裝備運輸等，增幅亦遠較一般通脹為高。

為確保合約價格具競爭力，達至價格公平及最高效益，我們均按既定的投標程序，對所有標書作全面評估，經過嚴格審核才批出合約。

我們重申影響 2012 及 2013 年營運開支的幾個主要因素包括物料價格及工程合約價格的上升、一些按合同而釐定的費用及一次性開支如 2012 年稅例改變而獲得的稅務寬免都非我們所能控制。港燈已採取不同措施去提升生產力及節省成本。

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This refers to Table 3 of Annex HEC-B.

It is always the objective of HK Electric to exercise stringent controls over the operating expenses. However, the variations of 2012 & 2013 operating expenses are mainly attributed to factors that are beyond our control. The contracts HK Electric entered into are based on competitive quotations or tenders from suppliers and contractors and the contract prices are affected by the prevailing market conditions. Besides, those one-off expenses such as taxation concession in 2012 as a result of change of IRD departmental practices, operating activities deviations, would also inevitably contribute to such costs variations.

In response to question raised by the LEGCO member on 2013 operating expenses, we would like to elaborate more as follows:

Items for Non-Fuel Operating Expenses	Forecast Expense for 2012 (\$ million) Estimate	Forecast Expense for 2013 (\$ million) Estimate	% Change
Operating Expenses			
Employee expenses (exclude retirement fund expenses) (Note a)	431.3		
Materials & Services (Note b)	158.8	177.7	11.9%
Administration Exp. (exclude retirement fund expenses) (Note a)	170.6	178.8	4.8%
Loan charges	1.2		
Government Rent & Rates	228.2	239.6	5.0%
Others (Insurance)	27.0	29.1	7.8%
Sub-total for Operating Expenses:	1,017.1	1,076.3	5.8%
Contingency	5.0	5.0	
Stocks/FA Write-offs & decommissioning cost (Note c)	60.2	72.3	
Depreciation	1,918.4	2,008.2	4.7%
Sub-total for Operating Expenses & Depreciation:	3,000.7	3,161.8	5.4%
Sub-total for Operating Expenses & Depreciation (include retirement fund expenses):	3,005.5	3,234.2	
Taxation	834.0	903.0	8.3%
Total Non-fuel Operating Expenses:	3,834.7	4,064.8	6.0%
Total Non-fuel Operating Expenses (include retirement fund expenses):	3,839.5	4,137.2	

Notes

- Retirement fund expenses are based on actuarial valuation, related accounting standards and regulations [under employee expenses - 2012: \$9.1 million, 2013: \$69.5 million; under administration expenses - 2012: (\$4.3 million), 2013: \$2.9 million.]
- Based on quotations from suppliers and contractors. If quotations are unavailable, expenses

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are based on inflation rates assumptions.

- c. Estimation based on usage conditions of fixed assets.

Notes to the confidential figures

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 confidential funding information could materially affect HK Electric's borrowing costs, leading to increased costs to Hong Kong citizens.

For Employee Expenses, HK Electric has a policy of pay for performance. Our pay policy is to offer sufficient remuneration to attract, retain and motivate staff of suitable talent with an objective to provide an effective and efficient service. Our remuneration package is competitive but not excessive, and is in line with the level of the labour market.

For Materials & Services and Administration Expenses, the increase is mainly attributed to the price increase in engineering contract, material cost, and other one-time expenses that are not under our control.

For reference, the latest price escalation for building and construction works in Hong Kong recorded by Architectural Services Department and reputable Quantity Surveyor - Rider Levett Bucknall amounting to 9%. As a result, price increase for the latest E&M contracts awarded is much higher than this year's inflation. The price increase is in the high single digit to double digit percent range while those for the latest general services contracts like catering, security, cleaning, bus services and equipment transportation, are far higher than general inflation.

To ensure that the contract prices are competitive with fair price and best value, our contracts are normally awarded after a comprehensive assessment of alternatives under the tendering procedures.

We would like to reiterate that the change of 2012 & 2013 expenses are mainly attributed to factors that are beyond our control such as escalations of material prices and engineering contract prices; expenses based on contracts and one-off expenses like the taxation concession in 2012 as a result of change of IRD departmental practices. HK Electric has also exercised measures to enhance productivity and to achieve savings.

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(d) information on the actual rate of return of the two power companies in 2012, and the estimated rate of return in 2013 as a result of the proposed increase in tariff;

目前香港特區政府透過管制計劃協議規管電力公司的運作及回報。一直以來港燈與電力有關的業務營運及財務管理完全符合管制計劃協議的技術及財政要求。根據管制計劃協議港燈於提供安全、可靠及符合環保要求的供電服務同時，亦可以賺取協議內訂明的合理回報；現行的管制計劃協議所訂定的回報率為 9.99%，然而 2012 及 2013 年的實際回報則會受多方面因素影響，其中包括售電量、營運開支、利息開支及營運表現等。

At present, the HKSAR Government regulates the operation and return of the power companies through the Scheme of Control Agreements (SCAs). HK Electric has all along been operating its electricity-related business and managing its financial matters in full compliance with both the technical and financial requirements stipulated under its SCA. Through providing safe, reliable and environmentally friendly electricity supply services, HK Electric is entitled to earn a reasonable return specified in the SCA. According to the prevailing SCA, the stipulated rate of return is 9.99%. However the actual return for 2012 and 2013 will be affected by various factors including electricity sales, operating costs, interest expenses and operating performance.

Follow-up to the Panel on Economic Development meeting on 11 Dec 2012 – Reply from CLP

- a. Details of the increase in tariff, in terms of percentage, for different tariff blocks of residential and business customers.

Domestic Tariff

Domestic Tariff Comparison

Block	Total Bimonthly Consumption Block	2013 Net Unit Rate HK\$	2012 Net Unit Rate HK\$	Change per block (%)
Consumption Total \leq 400 units/bill				
	Each unit (\leq 200 units)*	0.891	0.923	-3.5%
	Each unit (\leq 300 units)**	0.901	0.923	-2.4%
	Each unit (\leq 400 units)***	0.911	0.923	-1.3%
Consumption Total $>$ 400 units/bill				
1	Each of the first 400 units	0.981	0.923	+6.3%
2	Each of the next 600 units	1.096	1.038	+5.6%
3	Each of the next 800 units	1.237	1.179	+4.9%
4	Each of the next 800 units	1.522	1.355	+12.3%
5	Each of the next 800 units	1.732	1.44	+20.3%
6	Each unit over 3400	1.819	1.44	+26.3%

* For total bimonthly consumption not more than 200 units

** For total bimonthly consumption more than 200 units but not more than 300 units

*** For total bimonthly consumption more than 300 units but not more than 400 units

Impact of Tariff Adjustment on Domestic Customers

Total Bimonthly Consumption	2013 Maximum Monthly Charge HK\$	Maximum Average Net Tariff Rate HK\$	Approximate Net Tariff Change HK\$/month (%)
1 to 400 units	182	0.911	-\$3 to \$0 (-3.5% to 0%)
401 to 1000 units	525	1.05	\leq \$29 (\leq 6.3%)
1001 to 1800 units	1,020	1.133	\leq \$52 (\leq 5.8%)
1801 to 2600 units	1,629	1.253	\leq \$119 (\leq 7.9%)
2601 to 3400 units	2,321	1.366	$<$ \$236 (\leq 11.3%)
Over 3400 units	$>$ 2,321	1.819	\geq \$236 (\leq 26.3%)

Follow-up to the Panel on Economic Development meeting on 11 Dec 2012 – Reply from CLP

General Service Tariff (the tariff for SME customers)

General Service Tariff Comparison

Block	Total Monthly Consumption Block	2013 Net Unit Rate HK\$	2012 Net Unit Rate HK\$	Change per block (%)
Consumption Total \leq 400 units/bill				
	Each unit (\leq 200 units)*	1.047	1.079	-3.0%
	Each unit (\leq 300 units)**	1.057	1.079	-2.0%
	Each unit (\leq 400 units)***	1.067	1.079	-1.1%
Consumption Total $>$ 400 units/bill				
1	Each of the first 5000 units	1.137	1.079	+5.4%
2	Each unit over 5000	1.128	1.070	+5.4%

* For total monthly consumption not more than 200 units

** For total monthly consumption more than 200 units but not more than 300 units

*** For total monthly consumption more than 300 units but not more than 400 units

Impact of Tariff Adjustment on General Service Tariff Customers

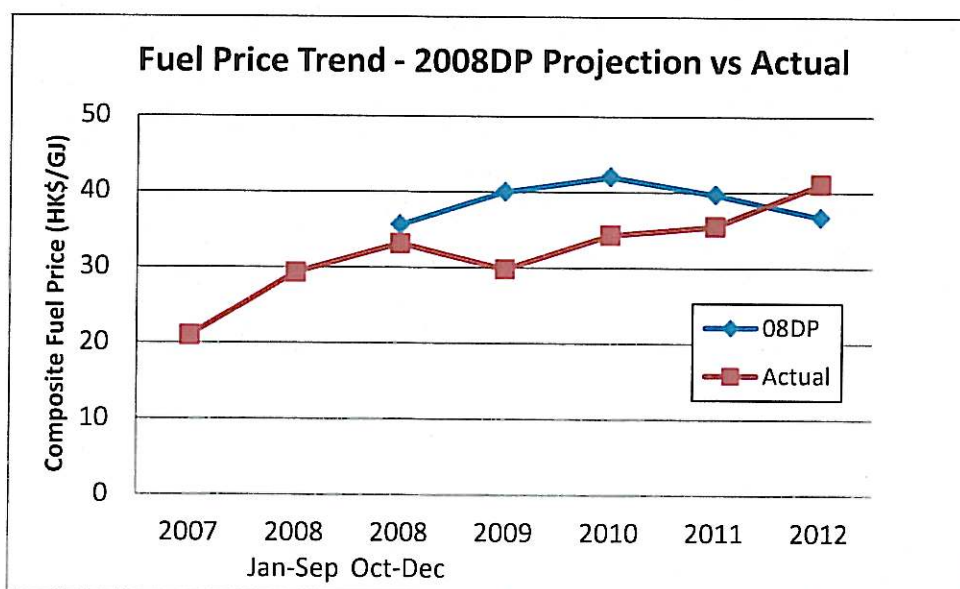
Total Monthly Consumption	2013 Maximum Monthly Charge HK\$	Maximum Average Net Tariff Rate HK\$	Approximate Net Tariff Change HK\$/month (%)
1 to 400 units	427	1.067	-\$7 to \$0 (-3.0% to 0%)
401 to 5000 units	5,685	1.137	\leq \$290 (5.4%)
Over 5000 units	$>$ 5,685	1.137	$>$ \$290 (5.4%)

Follow-up to the Panel on Economic Development meeting on 11 Dec 2012 – Reply from CLP

b. The reasons for the discrepancy in Fuel Clause Charge between the figures in the Five-year Development Plan Forecast and the Annual Tariff Review for 2013.

Forecast 2013 Fuel Clause Charge in Development Plan* (cents /kWh)		15.5
	Reasons for the discrepancy in Fuel Clause Charge between the figures in the Five-year Development Plan Forecast and the Annual Tariff Review for 2013	Discrepancy from Development Plan (cents / kWh)
(a)	<p>Increase in Fuel Price</p> <p>Increase of \$2,702 million is due to the actual market fuel price increase being higher than forecast at the time the Development Plan was approved in 2008. In particular, the much higher gas price is due to gas from new sources, such as the new West to East 2nd Pipeline (WEPII) gas.</p>	+9.0
(b)	<p>Change in the Fuel Clause Recovery Account deficit to reduce tariff increase</p> <p>In 2013 Tariff Review, worsening of the Fuel Clause Recovery Account (FCA) deficit from \$334 million at end 2012 to \$1,034 million at end 2013 represents a year to year change of \$700 million in 2013 Tariff Review. The corresponding change of year to year FCA balance was assumed to be \$2 million in the Development Plan</p>	-2.1
Sub-total:		+6.9
2013 Fuel Clause Charge in 2013 Tariff Review (cents /kWh)		22.4

* The Development Plan was prepared in early 2008 and approved in September 2008



Follow-up to the Panel on Economic Development meeting on 11 Dec 2012 – Reply from CLP

d. Information on the actual rate of return of CLP Power in 2012, and the estimated rate of return in 2013 as a result of the proposed increase in tariff.

According to the Scheme of Control Agreement (SCA), the Permitted Return is 9.99% of the total value of the Average Net Fixed Assets other than renewables and 11% of the total value of the Average Renewables Net Fixed Assets. The calculation of the return to shareholders is defined in the SCA and for the purpose of the 2012 and 2013 tariffs, a Permitted Rate of Return of 9.99% has been assumed. However, the Net Return actually accruing to shareholders is subject to adjustments in the form of Incentive / Penalty Amounts for emissions, customer, energy efficiency and renewables performances, as well as the deduction of interest incurred by CLP.

For 2013 the Basic Tariff, which includes a component for the Permitted Return, remains unchanged. There is an increase in the Fuel Clause Charge (by 4.6 cents/kWh) to allow a reasonable rate of recovering the rapidly increasing fuel expenses primarily due to the higher cost of replacement gas but this will have no effect on the rate of return.

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f. Response to the following motion passed at the meeting:

“That, with regard to the higher-than inflation electricity tariff increase proposed by CLP Power Hong Kong Limited (CLP) for the second consecutive year, this Panel finds it unacceptable, and thus urge the Administration to press CLP, as a public utility company, to be aware of its social responsibility and strive to suppress the level of tariff adjustment for 2013 so as to ease the financial burden of the general public by making use of every possible means, including adjusting the balances of Fuel Clause Recovery Account and Tariff Stabilization Fund (“TSF”), and in the meantime, the Government should also, when conducting the mid-term review on the Scheme of Control Agreements next year with the two power companies, grab the opportunity to require them to expand the sources of funds of TSF, such as by allocating certain proceeds from property development to TSF, so as to mitigate the pressure of tariff increase.”

CLP appreciates the community’s concern on tariff and energy saving and has considered various factors and taken steps to keep our tariffs at a reasonable level. The average Basic Tariff will remain unchanged in 2013 as a result of stringent cost control and higher sales due to warmer weather in 2012. The tariff increase in 2013 is primarily driven by rising fuel costs due to the importation of new gas supply from West-East Gas Pipeline II. The new gas costs are set at prevailing international market standards, three times higher than the gas contract signed 20 years ago for the Yacheng field when commodity prices were significantly lower.

A new “Energy Saving Rebate” will be introduced to encourage energy saving. Both domestic and non-domestic customers who consume less than 400 units per bill will enjoy the rebate. The lower the consumption, the higher the rebate rate. A Rent and Rates Special Rebate of 2.1¢ per kWh will also be provided in 2013. Overall we expect that 35% of our customers (about 700,000 households) and 44% of small business customers (about 130,000 customers) will see no increase, or even enjoy a small reduction in their bills. Over the past few years we have invested resources in community work to help grassroots families and we have seen very positive results from initiatives like the Hotmeal Canteen and our re-wiring service for the elderly. CLP recently announced the introduction of a one-off community care subsidy from shareholders of HK\$300 per eligible household for targeted low income families. The subsidy targets assistance to those who currently cannot enjoy support from the social security safety net and other welfare benefits including public housing and Comprehensive Social Security Assistance. It is a move that is expected to alleviate tariff pressure for over ten thousand families across CLP’s service area.

Due to a combination of higher than expected local electricity sales from the warmer weather and continued stringent cost management, CLP managed to improve the 2012 year end Tariff Stabilisation Fund (TSF) balance. This has enabled CLP to transfer over \$500 million from the TSF in 2013 to help alleviate tariff pressure. Indeed, the current Basic Tariff level is lower than that of 1997 and we have made use of TSF balance to achieve this. CLP will also increase the FCA deficit by \$700 million to a high deficit balance of more than HK\$ 1 billion to mitigate the tariff impact to customers.