

**Supplementary Information from Power Companies
On Their Annual Tariff Reviews
Elaboration on the Notes on Confidential Information**

Background

The two power companies provide supplementary information on their Annual Tariff Reviews. The two power companies consider that some of the information, if not kept confidential, may be detrimental to the interests of the public due mainly to the following reasons:

- Disclosure of information related to projections of future business (e.g. capital expenditure and electricity sales) will enable the suppliers to easily assess the budgets estimate of certain projects, or know in advance the two power companies' demand for services, and increase their bargaining power. This may cause an increase in capital expenditure or costs of the two power companies, affecting future tariff increases, and jeopardising the interests of the public; and
- Revealing information about contract requirement and price forecast will significantly weaken the two power companies' bargaining position in prices and quantities negotiations, resulting in higher costs to be borne by the public.

2. Given that such information should not be publicly released, the two power companies are required to ensure that the information is kept confidential or, otherwise, there may be a violation of the requirements under the Hong Kong Listing Rules and the/or Securities and Futures Ordinance, and detriment to the interests of small shareholders. Further elaboration on these aspects is given in paragraphs 3 to 8 below.

Listing Rules and Part XIVA of Securities and Futures Ordinance

3. The confidential information highlighted by the two power companies are non-public and price sensitive inside information, and will have significant impact on the share prices of the parent company of CLP Power Hong Kong Limited, CLP Holdings Limited, and the holding entities of The Hongkong Electric Company Limited, HK Electric Investments and HK Electric Investments Limited. Being members of listed group, the two power companies are required to comply with Hong Kong Listing Rules requirement which contains specific guidance in dealing with price sensitive inside information. Rule 13.09(2) of the Listing Rules and sections 307D and 307G of the Securities and Futures Ordinance impose a duty on directors and officers to

ensure that non-public and price sensitive inside information, not previously released to the market, is kept strictly confidential under a “safe harbour”, and that the information should be publicly released to the market promptly if confidentiality cannot be preserved.

Interest of Small Shareholders

4. The release of confidential information to selected groups of the public may create an unfair market with disparity of information. The groups with knowledge of such information may be able to capture on the opportunities the public release of this information will create to the detriment of small shareholders and other potential investors. Such price fluctuation may result in an unorderly market, affecting the investments of the small shareholders many of whom are ordinary people living and working in Hong Kong.

5. The two power companies will also be in breach of the Listing Rules and the Securities and Futures Ordinance if they disclose price sensitive inside information to selected groups of the public without confidentiality protection, unless at the same time they publicly release the information to the market.

Part XIII and XIV of Securities and Futures Ordinance

6. Confidential information, which is non-public and price sensitive information, falls within the definition of “inside information” as defined in section 245 of Part XIII of the Securities and Futures Ordinance and people in possession of such inside information become “insiders”. Any dealing by insiders using inside information or any “tipping” by insiders to others of inside information will commit an offence under Parts XIII and XIV of the Securities and Futures Ordinance (e.g. sections 248 to 249, 270 to 273 and 291 to 294). Therefore, any leakages of the two power companies’ non-public information will create a serious disruption to the orderly function of the Hong Kong stock market.

Problems with Public Disclosure

7. Given the highly commercially and price sensitive nature of the information, any public release of such information to the market is also likely to be problematic and undesirable as there will be detrimental consequences to the two power companies, their customers and their shareholders. Amongst other things, knowledge of the confidential information by suppliers may result in potential abusive pricing arrangements prejudicing the power companies’ ability to negotiate effectively in global supply markets.

Conclusion

8. Given the above reasons and for safeguarding confidential information, the two power companies submit that the most practical solution in achieving accountability and proper disclosure of the confidential information to Legislative Council is to provide relevant information under confidential measures and adopting the approaches proposed by the two power companies.

CLP Power Hong Kong Limited
The Hongkong Electric Company Limited

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

**Provision of information by The Hongkong Electric Company, Limited (HEC)
for 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 ¹ (\$ million)	2014	2015	2016	2017-2018	Total
(A) Power Generation System	620.0	886.7			6,065.8
(B) Transmission & Distribution System	1,017.4	1,115.4			5,322.9
(C) Customer and Corporate Services Development	408.4	416.8			1,644.4
Grand Total	2,045.8	2,418.9			13,033.1

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

Notes to the confidential figures:

Revealing HEC major capital expenditure categories would enable the suppliers to 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 in future tariff level. This would also reveal HEC'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.

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Approved 2014-2018 Development Plan – Project Capital Expenditure Forecasts			
Project No.	Project	Remark	Project Total CapEx (HK\$M)
G. Generation Projects			
G.1	Lamma Extension – L10 Combined Cycle Gas Generating Unit		
G.2	Life Extension of Coal-Fired Unit (L2) & Ancillary Plant Improvement		
G.3	CCGT Unit GT57 Reliability Upgrading		
G.4	CCGT Unit L9 Reliability Upgrading		
G.5	Upgrade Coal-Fired Units Operating Efficiency and Reliability		
G.6	Improve and Upgrade Coal Conveying and Handling System		
G.7	Improve and Upgrade Common Facilities, Civil Works, Power Export Transmission Facilities and Other Auxiliary Plants		
T&D. Transmission & Distribution Projects			
T&D.1	Cable Replacement for Kennedy Road-Davis 132kV Circuits		
T&D.2	Cable Replacement for North Point-Parker 132kV Circuits		
T&D.3	Power Supply to MTRC Shatin to Central Link (North South Corridor), West and South Island Lines		
T&D.4	Zone Electricity Supply Improvement		
T&D.5	Construct New Distribution Network to Supply New Customers		
T&D.6	Construct 22kV Distribution Network to Promote Electricity Supply Reliability		
T&D.7	Replace North Point 132kV Station EHV Switchgear		
T&D.8	132kV & 275kV Transmission System Improvement & Reliability Upgrade		
T&D.9	HV/LV Distribution Systems Reinforcement		
C. Customer & Corporate Services Development Projects			
C.1	Replace and Upgrade IT Systems for Corporate Applications		
C.2	Replace and Upgrade IT Systems for Engineering Applications		
C.3	Distribution System Metering, Communication System, Customer Services, Operation Premises Improvement, and Building M&E Services Energy Efficiency Upgrade		
Total CapEx of All the Above Projects			13,033.1

Notes to the confidential figures:

Since a lot of works are in progress under individual projects, 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 customers.

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

Categories (\$ million)	2014	2015 Forecast	2016 Forecast
(A) Power Generation System	622.4	854.7	
(B) Transmission & Distribution System	1,112.3	892.3	
(C) Customer and Corporate Services Development	440.5	508.0	
Grand Total	2,175.2	2,255.0	

Notes to the confidential figures:

Revealing HEC major capital expenditure categories would enable the suppliers to 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 in future tariff level. This would also reveal HEC'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 (2014-2018) Development Plan, the estimated capital expenditure for the first two years 2014-2015 (\$4.4302 billion) is slightly less than the budget estimate shown in the Development Plan (\$4.4647 billion). The forecast total capital expenditure up to 2016 is close to that of the Development Plan ([redacted] vs. [redacted]).

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

Tariff Component (cents/kWh)	2013	2014	2015		2016		2017	2018
	Annual Tariff Review	DP Forecast/ Annual Tariff Review*	DP Forecast	Annual Tariff Review	DP Forecast	Annual Tariff Review	DP Forecast	DP Forecast
Basic Tariff	94.7	101.8	101.7	102.6	101.0	105.5	100.4	100.0
<i>Increase/(Decrease)%</i>								
<i>-- Annual</i>		+7.5%		+0.8%		+2.8%		
<i>-- Since 2013</i>		+7.5%	+7.4%	+8.3%	+6.7%	+11.4%	+6.0%	+5.6%
Fuel Clause Charge	40.2	33.1	33.2	32.3	33.9	27.9	34.5	34.9
<i>Increase/(Decrease)%</i>								
<i>-- Annual</i>		-17.7%		-2.4%		-13.6%		
<i>-- Since 2013</i>		-17.7%	-17.4%	-19.7%	-15.7%	-30.6%	-14.2%	-13.2%
Net Tariff	134.9	134.9	134.9	134.9	134.9	133.4	134.9	134.9
<i>Increase/(Decrease)%</i>								
<i>-- Annual</i>		0%		0%		-1.1%		
<i>-- Since 2013</i>		0%	0%	0%	0%	-1.1%	0%	0%

* The two exercises were done at the same time.

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Provisions of information by The Hongkong Electric Company Limited (HEC) for Economic Development Panel of the Legislative Council

II. Information 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 Others. For the fuel clause charge, the factors include:- (1) Fuel Prices; (2) Correction of last year's fuel clause charge; and (3) Fuel Clause Recovery Account balance.

1. Tariff Adjustment

	2015 Tariff ¢/kWh	2016 Tariff ¢/kWh	Adjustment %
Basic Tariff	102.6	105.5	2.8% +2.9 cents
Fuel Clause Charge	32.3	27.9	-13.6% -4.4 cents
Net Tariff	134.9	133.4	-1.1% -1.5 cents

Year End Balance (\$ billion)

- Tariff Stabilisation Fund (Estimate)	0.20B	0.39B
- Fuel Clause Recovery Account (Estimate)	2.23B	2.18B

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2. Rationale for tariff adjustment

	Rationales for tariff adjustment	Tariff impact (¢ / kWh)																		
(1)	Basic Tariff																			
(a)	<p>Increase in Average Net Fixed Assets</p> <p>Increase from estimated [redacted] billion in 2015 to estimated [redacted] billion in 2016, the major components include capital expenditure on transmission & distribution projects, generation projects and customer and corporate services development projects</p> <p>Note: Average Net Fixed Assets for any year means the average, for that year, of the opening and closing balances of Net Fixed Assets.</p>	+0.2																		
(b)	<p>Increase in operating expenses</p> <p>Increase from estimated \$3.33 billion in 2015 to estimated \$3.47 billion in 2016 mainly due to the rise in material prices & variations in operating activities and increase in depreciation</p> <p>(Please refer to item 3A)</p>	+1.3																		
(c)	<p>Decrease in local electricity sales</p> <p>The sales of electricity decrease from estimated 10.78 billion kWh in 2015 to estimated [redacted] billion kWh in 2016. The major changes in different categories are tabled as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 30%;">Million kWh</th> <th style="width: 35%;">2015 Estimate</th> <th style="width: 35%;">2016 Estimate</th> </tr> </thead> <tbody> <tr> <td>Domestic</td> <td>2,531</td> <td>[redacted]</td> </tr> <tr> <td>Commercial</td> <td>7,926</td> <td>[redacted]</td> </tr> <tr> <td>Industrial</td> <td>322</td> <td>[redacted]</td> </tr> <tr> <td>Total</td> <td>10,779</td> <td>[redacted]</td> </tr> <tr> <td>Change Over Previous Year</td> <td>-1.6%</td> <td>[redacted]</td> </tr> </tbody> </table>	Million kWh	2015 Estimate	2016 Estimate	Domestic	2,531	[redacted]	Commercial	7,926	[redacted]	Industrial	322	[redacted]	Total	10,779	[redacted]	Change Over Previous Year	-1.6%	[redacted]	+1.6
Million kWh	2015 Estimate	2016 Estimate																		
Domestic	2,531	[redacted]																		
Commercial	7,926	[redacted]																		
Industrial	322	[redacted]																		
Total	10,779	[redacted]																		
Change Over Previous Year	-1.6%	[redacted]																		

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	Rationales for tariff adjustment	Tariff impact (¢ / kWh)
(1)	Basic Tariff	
(d)	Adjustment in Tariff Stabilisation Fund (TSF) balance Due to a reduction of TSF in 2015, there is a need to adjust 2016 TSF balance to a reasonable level	+3.1
(e)	Decrease in interest & taxation (Please refer to item 3B)	-3.3
	Sub-total (Basic Tariff):	+2.9

Notes on the confidential figures:

- (i) Forecast Average Net Fixed Assets (ANFA) values might reveal future 2016 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.
- (ii) Disclosure of future sales growth might indicate to suppliers HEC’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 HEC’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.

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	Rationales for tariff adjustment	Tariff impact (¢ / kWh)
(2)	Fuel Clause Charge	
(a)	Expected increase in 2016 fuel price over 2015 Increase of 2016 fuel expenses over 2015 by \$1.17 billion	+11.0
(b)	Return of over-collected 2015 fuel clause charge As a result of lower-than-expected fuel costs in 2015, the Fuel Clause Recovery Account surplus has increased from \$0.63 billion at end 2014 to estimated \$2.23 billion surplus in end 2015	-14.9
(c)	Change in the Fuel Clause Account balance The Fuel Clause Recovery Account surplus decreases from \$2.23 billion at end 2015 to estimated \$2.18 billion surplus in end 2016	-0.5
	Sub-total (Fuel Clause Charge):	-4.4
	Grand total:	-1.5

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Fuel consumed (Tera-joules)	<u>2015 (Estimate)</u>	<u>2016 (Estimate)</u>
• Coal	78,520	
• Natural Gas	31,634	
• Oil	676	
Total	110,830	

Average Fuel Price (HK\$ per GJ)	<u>2015 (Estimate)</u>	<u>2016 (Estimate)</u>
• Coal	20.8	
• Natural Gas	61.7	
• Oil	133.5	
Overall	33.4	

Total Fuel Cost (\$ million)	<u>2015 (Estimate)</u>	<u>2016 (Estimate)</u>
• Coal	1,636	
• Natural Gas	1,953	
• Oil	90	
• Others	20	
Overall	3,699	

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

Standard fuel costs (Include in basic tariff)	1,820	
Fuel Clause Recovery Account	1,879	
Overall	3,699	

Notes on the confidential figures:

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

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

Items for Non-Fuel Operating Expenses	Forecast Expense for 2015 (\$ million) Estimate	Forecast Expense for 2016 (\$ million) Estimate	% Change
Operating Expenses			
Employee expenses (1)	705.2		
Materials & Services (note a)	308.2	312.0	
Loan charges (2)	1.5		
Government Rent & Rates	224.2	234.2	
Contingency	4.9	5.0	
Stocks/FA Write-offs (note b)	63.2	83.3	
Depreciation	2,020.9	2,066.0	
(A) Sub-total for Operating Expenses & Depreciation:	3,328.1	3,469.6	4.3%
Interest (2)	148.4		
Taxation (3)	1,110.5		
(B) Sub-total for Interest & Taxation:	1,258.9	960.2	-23.7%
Total Non-fuel Operating Expenses:	4,587.0	4,429.8	-3.4%

Note

- Based on quotations from suppliers and contractors. If quotations are unavailable, expenses are based on inflation rates assumptions.
- Estimation based on usage conditions of fixed assets.

Notes to the confidential figures as highlighted:

- HEC has a policy of pay for performance. As a result, staff salary adjustment rate will vary by individual. Disclosing such detail may create false expectation and jeopardize employee relations.
- Disclosure of confidential funding information could materially affect HEC's borrowing costs, leading to increased costs to Hong Kong citizens.
- Disclosure of information may enable calculation of interest.

- End -