

**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

**Provision of information by CLP Power (CLP) on 2016 Tariff Review
for the Legislative Council Panel on Economic Development**

A. Information related to the Five-year Development Plan

A1. Capital expenditure forecast under the approved Development Plan

Categories^[1] (\$ million)	2014	2015	2016	2017	2018^[2]	Total
(A) Power Generation System	2,181	2,397				10,703
(B) Transmission & Distribution System	5,507	5,254				22,562
(C) Customer and Corporate Services Development	179	218				836
Grand Total (A+B+C)	7,867	7,869				34,101

Remarks:

[1] Capital expenditure forecast breakdowns are shown on page 2 - 3.

[2] Period covering Jan - Sep 2018.

Notes to the confidential figures:

- Revealing CLP 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 CLP's future fixed assets investment as well as future profits. Any disclosure of confidential inside information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements and the Securities and Futures Ordinance. Any person using confidential inside information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Submission of Major Projects in the 2014 Development Plan

Generation

No.	Projects	\$billion
1	Black Point Combined-Cycle Gas Turbine Efficiency Upgrade	
2	Preparatory Works for New 250MW Open Cycle Gas Turbine (OCGT)	
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]	8.6

Transmission & Distribution

No.	Projects	\$billion
	<u>Meeting Load Requirements</u>	
1	Establishment of 3rd 132kV Yuen Long - On Lok Road Circuit	0.1
2	Provisional Cable Installation inside Tuen Mun - Chek Lap Kok Link Tunnels	
3	Establishment of Chun Yat Street Substation	0.3
4	Establishment of 2nd 400kV Yuen Long - Lai Chi Kok Circuit	
5	Establishment of Kai Tak Cable Tunnel	0.6
6	Security Enhancement of Nuclear Transmission System	0.5
7	Establishment of West Kowloon Reclamation 'B' Substation	
8	Establishment of Salisbury Garden Substation	
9	Establishment of Yue Man Square Substation	
10	Establishment of Lam Tei Substation	0.2
11	Addition of two 132/11kV Transformers at On Sum Street Substation	
12	Meeting Load Requirements - Others (Other projects < \$100m and many thousands of projects to meet customer demand)	7.5
	<u>Meeting Government/ Infrastructure Requirements</u>	
13	Establishment of Lai Wan Interchange Substation	0.2
14	Establishment of Heung Yuen Wai Substation	
15	Establishment of Hong Kong Boundary Crossing Facilities (HKBCF) Substation	
16	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
	<u>Maintaining Supply Reliability & Quality</u>	
17	Establishment of 2 x 132kV Tai Kok Tsui Traction - West Kowloon Reclamation 'B' Circuits	
18	Establishment of 132kV Open Rings in Hung Hom Area	
19	400kV Tower Lines Reinforcement for Super Typhoon	0.3
20	Maintaining Supply Reliability & Quality Others (Other projects < \$100m and many thousands network reinforcement projects to maintain supply reliability & quality)	4.0
	<u>Replacement & Refurbishment</u>	
21	11kV Switchgear Refurbishment	
22	Asset Replacement & Refurbishment Others (Other projects < \$100m and hundreds of projects to replace aged equipment)	2.0
23	Network Operation Systems (System Control, Protection, Telecommunications)	1.1
24	New & Replacement Meters, Metering System Development	0.8
25	Miscellaneous & Others	0.8

Customer and Corporate Services

No.	Projects	\$billion
1.	Customer Billing & Services System & Centre Facilities	0.3
2.	Corporate System Development (data storage, backup infrastructure & security system) and other support services	0.5

Total 34.1

Notes to the confidential information:

Since a lot of work is in progress under individual projects, 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 2014 Development PlanGeneration

No.	Projects	\$billion
1	Castle Peak A (CPA) 400kV Switchgear Replacement	
2	New 250MW Open Cycle Gas Turbine (OCGT)	

Transmission & Distribution

No.	Projects	\$billion
1	Establishment of South East Kowloon 'C' Substation	
2	Establishment of Ho To West Substation	
3	Advanced Metering Infrastructure (AMI)	

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 is 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 consumers to keep these numbers confidential.

A2. Actual capital expenditure under the approved Development Plan Period

Categories (\$ million)	2014	2015 ^[1]	2016 ^[2]
(A) Power Generation System	2,185	2,455	
(B) Transmission & Distribution System	5,442	4,913	
(C) Customer and Corporate Services Development	173	207	
Grand Total (A+B+C)	7,800	7,575	

[1] Projected figures per 2016 Tariff Review pending year-end accounting audit and verification.

[2] As projected and forecast in the 2016 Tariff Review submission.

Notes to the confidential figures:

- Revealing CLP 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 CLP's future fixed assets investment as well as future profits. Any disclosure of confidential inside information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements and the Securities and Futures Ordinance. Any person using confidential inside information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

A3. Tariff Component by year - Five-year development plan forecast compared with annual tariff review

Tariff Component (cents/ kWh)	2013	2014	2015		2016		2017		2018	
	Actual Tariff	DP Forecast/ Annual Tariff Review ¹	DP Forecast ²	Annual Tariff Review	DP Forecast ²	Annual Tariff Review	DP Forecast ²	Annual Tariff Review	DP Forecast ²	Annual Tariff Review
(A) Basic Tariff	84.2	88.4	87.2	87.2	88.4	88.9	90.0		92.1	
<i>Increase/(Decrease)%</i>										
-- Annual		5.0%	-1.4%	-1.4%	1.4%	1.9%	1.8%		2.3%	
-- Since 2013		5.0%	3.6%	3.6%	5.0%	5.6%	6.9%		9.4%	
(B) Fuel Clause Charge	22.4	22.4	36.7	27.0	45.3	24.3	52.6		56.4	
<i>Increase/(Decrease)%</i>										
-- Annual		0.0%	63.8%	20.5%	23.4%	-10.0%	16.1%		7.2%	
-- Since 2013		0.0%	63.8%	20.5%	102.2%	8.5%	134.8%		151.8%	
(C) Net Tariff	106.6	110.8	123.9	114.2	133.7	113.2	142.6		148.5	
<i>Increase/(Decrease)%</i>										
-- Annual		3.9%	11.8%	3.1%	7.9%	-0.9%	6.7%		4.1%	
-- Since 2013		3.9%	16.2%	7.1%	25.4%	6.2%	33.8%		39.3%	

1 The two exercises were done at the same time.

2 The tariff rates for 2015-2018 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 & fuel costs.

B. Materials related to tariff adjustments

B1. The proposed tariff adjustment

	2015 Tariff c / kWh	Proposal for 2016 Tariff c / kWh	Adjustment %
Basic Tariff	87.2	88.9	1.9%
Fuel Clause Charge	27.0	24.3	(10.0%)
Net Tariff	114.2	113.2	(0.9%)

Year end Balance (\$ million)

- Tariff Stabilisation Fund	608	499
- Fuel Clause Account	2,147	2,044

B2. The rationales for the final tariff adjustment

	Rationales for tariff adjustment	Tariff impact (c / kWh)
(1)	Basic Tariff	
(a)	<p>Increase in Average Net Fixed Asset</p> <p>Increase from \$ [redacted] billion in 2015 to \$ [redacted] billion in 2016, the majority of which is from investment in our transmission & distribution network to meet supply reliability and customer demand.</p>	+0.9
(b)	<p>Increase in operating expenses</p> <p>Increase from \$13.8 billion in 2015 to \$13.9 billion in 2016. This mainly includes Depreciation, Government Rent & Rates, which are set through contracts or accounting policies and are not controllable. (breakdown see Note iii)</p>	+0.5
(c)	<p>Increase in local electricity sales</p> <p>Increase from 32,860GWh in 2015 to [redacted] GWh in 2016 (breakdown see Note i)</p>	-0.6
(d)	<p>Decrease in sales to Mainland</p> <p>Lower benefit to tariffs as sales decrease from 1,180GWh in 2015 to [redacted] GWh in 2016 because of lower projected sales in 2016</p>	+0.1
(e)	<p>Decrease in drawdown from Tariff Stabilisation Fund</p> <p>Due to the depletion of the TSF in 2015, a lower funding contribution is projected for 2016. The TSF balance would decrease from \$608 million (end 2015) to \$499 million (end 2016), about 1%* of annual sales revenue</p>	+1.2
(f)	<p>Others (Change in Interest and Taxation)</p> <p>Change in taxation (apart from that included in (a) and (e)) and interest and decrease in Standard Fuel Cost</p>	-0.4
	Sub-total (Basic Tariff):	+1.7

*The upper limit stipulated in the Scheme of Control Agreement is 5%

	Rationales for tariff adjustment	Tariff impact (c / kWh)
(2)	Fuel Clause Charge	
(a)	Decrease in Fuel Price Decrease due to fuel expense reduction of \$271 million (Note ii), and electricity sales growth of % in 2016	-1.0
(b)	Correction for the over-/under-recovery of fuel cost in 2015 (i.e. 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 2015 is \$448 million	-1.4
(c)	Change in the Fuel Clause Account balance Decrease of the Fuel Clause Account balance from \$2,147 million at end 2015 to \$2,044 million at end 2016; the change is -\$103 million	-0.3
	Sub-total (Fuel Clause Charge):	-2.7
	Grand total:	-1.0

Notes to the confidential figures:

- a. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2016 profits. Any disclosure of confidential inside information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements and the Securities and Futures Ordinance. Any person using confidential inside 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 inside information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements and the Securities and Futures Ordinance. Any person using confidential inside information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Note i**Local Sales Forecast**

	2015 Forecast *		2016 Forecast *	
	<u>This Submission</u> GWh	<u>Incr./ (Decr.) over 2014</u> %	<u>This Submission</u> GWh	<u>Incr./ (Decr.) over 2015 Forecast</u> %
Local sales				
• Commercial	13,185	0.7		
• Residential	9,065	(4.1)		
• Infrastructure & Public Services	8,810	2.6		
• Manufacturing	1,800	0.5		
Total Local Sales	<u>32,860</u>	<u>(0.2)</u>		

* 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 inside information may be detrimental to the interests of small shareholders and may also violate the Hong Kong Listing Rules requirements and the Securities and Futures Ordinance. Any person using confidential inside information or any "tipping" to others for dealings may also commit an offence under the Securities and Futures Ordinance.

Note ii

Fuel consumed (‘000 terajoules)	<u>2015 Forecast</u>	<u>2016 Forecast</u>
• Coal	154.5	
• Natural Gas	72.7	
• Oil	1.6	
• Others (include Interconnection)	11.3	
Total	240.1	

Average Fuel Price (HK\$ per gigajoule)	<u>2015 Forecast</u>	<u>2016 Forecast</u>
• Coal	21.2	
• Natural Gas	108.5	
• Oil	168.5	
• Others (include Interconnection)	101.3	
Total	52.4	

Fuel Cost (\$ million)	<u>2015 Forecast</u>	<u>2016 Forecast</u>
• Coal	3,276	
• Natural Gas	7,889	
• Oil	273	
• Others (include Interconnection)	1,145	
Total	12,583	
Standard Fuel Cost	3,821	
Fuel Cost exceeding Standard Fuel Cost	8,762	

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.

The underlying calculations in Average Fuel Price (HK\$ per gigajoule) have been performed using more decimal places for “Fuel consumed (‘000 terajoules)” and “Fuel Cost (\$ million)” than are presented. If the calculations are reperformed using the data presented, some minor differences in the numbers may arise.

Note iii

Items for Non-Fuel Expenses	Forecast Expense for 2015 (\$ million)	Forecast Expense for 2016 (\$ million)	% Change
Operating Costs			
Payroll	1,283		
Material & Services	1,417	1,555	9.7% ^[1]
Loan Charges	30		
Government Rent & Rates	629	678	7.8% ^[2]
Fixed Asset Disposal	294	249	-15.3% ^[3]
Exchange (Gain) /Loss	14		
Power Purchase from PSDC	447	469	4.9%
Sub-total for Operating Costs:	4,114	4,141	0.7%
Nuclear Power Purchase	5,643	5,652	0.2%
Provision for Asset Decommissioning	(80)	(78)	-2.5% ^[4]
Depreciation	4,090	4,352	6.4% ^[5]
Additional Cost Optimisation	-	(138)	N/A
Total Non-fuel Operating Expenses before Operating Interest and Taxation	13,767	13,929	1.2%
Operating Interest	980		^[6]
Taxation	1,776		
Total Non-fuel Operating Expenses:	16,523	17,002	2.9%

[See notes below]

Notes on the confidential figures:

- The 2016 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.
- Disclosure of this confidential funding information could materially affect CLP's borrowing cost, leading to increased costs to Hong Kong citizens.
- 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.
- Disclosure of this information may enable calculation of Operating Interest.

Items for Non-Fuel Operating Expenses	Reasons for Large Change
[1] Material & Services	The increase mainly represents general inflation effect, activities to upkeep emissions performance, cyclical plant maintenance activities and increased provision for energy efficiency & conservation activities and reliability enforcement requirements
[2] Government Rent & Rates	Higher Government Rent & Rates based on the latest assessment by RVD
[3] Fixed Asset Disposal	Mainly due to return of ash lagoon to the Government in 2015
[4] Provision for Asset Decommissioning	Mainly due to the reversal of provision for transmission & distribution assets made in previous years
[5] Depreciation	Mainly due to the normal increment in line with capital expenditure investment in transmission & distribution projects and generating facilities
[6] Operating Interest	Mainly due to the change in forecast interest rate