

**Supplementary Information from Power Companies
On Their Development Plans and Tariff Reviews
Elaboration on the Notes on Confidential Information**

Background

The two power companies provide supplementary information on their Development Plans^[1] and Tariff Reviews^[2]. 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.

[1] CLP's Development Plan covers the period from Oct 2018 to Dec 2023; HEC's Development Plan covers the period from Jan 2019 to Dec 2023.

[2] CLP's Tariffs cover the period from Oct 2018 to Dec 2019; HEC's Tariffs cover the period from Jan to Dec 2019.

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

2019-2023 Development Plan & 2019 Tariff Review Annex HEC-A

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 2019-2023 Development Plan

1. Capital expenditure forecasts under the 2019-2023 Development Plan

| Categories ¹ (\$ million) | Total |
|---|-----------------|
| Power Generation System | 16,224.4 |
| Transmission & Distribution System | 9,064.6 |
| Customer and Corporate Services Development | 1,297.3 |
| Grand Total | 26,586.3 |

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

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| Item | Project | Project Total CapEx (HK\$M) |
|--|--|-----------------------------|
| G. Power Generation System | | |
| G.1 | Lamma Extension – L10 Combined Cycle Gas Generating Unit | |
| G.2 | Lamma Extension – L11 Combined Cycle Gas Generating Unit | |
| G.3 | Lamma Extension – L12 Combined Cycle Gas Generating Unit | |
| G.4 | Lamma Extension – Preparatory Field Work for L13 Combined Cycle Gas Generating Unit | |
| G.5 | Po Toi Island Solar Renewable Energy System | |
| G.6 | Offshore LNG Terminal | |
| G.7 | Reprovision of Retired Open Cycle Gas Turbine Units | |
| G.8 | Upgrade of L9 Combined Cycle Gas Generating Unit Reliability | |
| G.9 | Improvement and Upgrade of Coal and Ash Handling System | |
| G.10 | Common Utilities and Provisions at Lamma Extension | |
| G.11 | Improvement and Upgrade of Common Facilities, Civil Works, and Other Auxiliaries for Generation System | |
| T&D. Transmission & Distribution System | | |
| T&D.1 | Cable Replacement for Kennedy Road-Davis 132-kV Circuits | |
| T&D.2 | Cable Replacement for Kennedy Road-Moreton Terrace 132-kV Circuits | |
| T&D.3 | Power Supply to MTRC Shatin to Central Link (North South Corridor) | |
| T&D.4 | Zone Substation Development | |
| T&D.5 | Additional Transmission System for New Generating Units | |
| T&D.6 | Construction of New Distribution Network to Supply New Customers | |
| T&D.7 | Zone Substation Improvement to Enhance Reliability | |
| T&D.8 | 132-kV & 275-kV Transmission System Improvement & Reliability Upgrade | |
| T&D.9 | HV/LV Distribution Systems Reinforcement | |
| T&D.10 | Grid Automation and Control Improvement | |
| T&D.11 | Smart Meters and Advanced Metering Infrastructure | |
| T&D.12 | Other Improvement and Reliability Upgrade Works for Transmission and Distribution System | |
| C. Customer and Corporate Services Development | | |
| C.1 | Replacement and Upgrade of IT System and Infrastructure | |
| C.2 | Communication System, Customer Services, Operation Premises Improvement, and Miscellaneous | |
| Total CapEx of All the Above Projects | | 26,586.3 |

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.

2019-2023 Development Plan & 2019 Tariff Review

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

| Tariff Component (cents/kWh) | | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------------------|--|----------------------|---------------------------------------|-------------|-------------|-------------|-------------|
| | | Annual Tariff Review | DP Forecast/ Annual Tariff Review* | DP Forecast | DP Forecast | DP Forecast | DP Forecast |
| (A) | Basic Tariff | 109.1 | 101.3 | 105.3 | 110.2 | 114.8 | 115.7 |
| | <i>Increase/(Decrease)%</i> | | | | | | |
| | -- Annual | | -7.1% | +3.9% | +4.7% | +4.2% | +0.8% |
| | -- Since 2018 | | -7.1% | -3.5% | +1.0% | +5.2% | +6.0% |
| (B) | Special Rent & Rates Rebate | -4.0 | -2.3 | -0.3 | - | - | - |
| (C) | Net Basic Tariff | 105.1 | 99.0 | 105.0 | 110.2 | 114.8 | 115.7 |
| | <i>Increase/(Decrease)%</i> | | | | | | |
| | -- Annual | | -5.8% | +6.1% | +5.0% | +4.2% | +0.8% |
| | -- Since 2018 | | -5.8% | -0.1% | +4.9% | +9.2% | +10.1% |
| (D) | Fuel Clause Charge | 23.4 | 23.4 | 25.8 | 27.5 | 29.8 | 36.2 |
| | <i>Increase/(Decrease)%</i> | | | | | | |
| | -- Annual | | -% | +10.3% | +6.6% | +8.4% | +21.5% |
| | -- Since 2018 | | -% | +10.3% | +17.5% | +27.4% | +54.7% |
| (E) | Special Fuel Rebate | -16.0 | -2.3 | - | - | - | - |
| (F) | Net Tariff | 112.5 | 120.1 | 130.8 | 137.7 | 144.6 | 151.9 |
| | <i>Increase/(Decrease)%</i> | | | | | | |
| | -- Annual | | +6.8% | +8.9% | +5.3% | +5.0% | +5.0% |
| | -- Since 2018 | | +6.8% | +16.3% | +22.4% | +28.5% | +35.0% |
| (G) | Tariff Stabilization Fund (\$M) | 331.0 | 328.5 | 326.8 | 325.7 | 324.9 | 268.7 |
| (H) | Fuel Clause Recovery Account CR/(DR) (\$M) | 978.5 | 614.8 | 413.2 | 330.3 | 288.9 | 38.7 |

* 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

1. Tariff Adjustment

| | 2018 Tariff ¢/kWh | 2019 Tariff ¢/kWh | Adjustment % |
|-----------------------------|----------------------|----------------------|-----------------------|
| Basic Tariff | 109.1 | 101.3 | |
| Special Rent & Rates Rebate | -4.0 | -2.3 | |
| Net Basic Tariff | 105.1 | 99.0 | -5.8% -6.1 cents |
| Fuel Clause Charge | 23.4 | 23.4 | |
| Special Fuel Rebate | -16.0 | -2.3 | |
| Net Tariff | 112.5 | 120.1 | +6.8% +7.6 cents |

Year End Balance (\$ billion)

| | | |
|--|-------|-------|
| - Tariff Stabilisation Fund (Estimate) | 0.33B | 0.33B |
| - Fuel Clause Recovery Account (Estimate) | 0.98B | 0.61B |

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2. Rationale for tariff adjustment

| | Rationales for tariff adjustment | Tariff impact (¢ / kWh) | | | | | | | | | | | | | | | | | | |
|------------------------------|--|------------------------------------|------------------|------------------|----------|-------|------------|------------|-------|------------|------------|-----|------------|-------|--------|------------|------------------------------|-------|------------|------|
| (1) | Basic Tariff | | | | | | | | | | | | | | | | | | | |
| (a) | <p>Change in Rate of Permitted Return</p> <p>Reduction of rate of permitted return from 9.99% to 8.00%.</p> | -11.8 | | | | | | | | | | | | | | | | | | |
| (b) | <p>Increase in Average Net Fixed Assets</p> <p>Increase from estimated [REDACTED] billion in 2018 to estimated [REDACTED] billion in 2019, 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> | +2.0 | | | | | | | | | | | | | | | | | | |
| (c) | <p>Decrease in operating expenses</p> <p>Decrease from estimated \$4.11 billion in 2018 to estimated \$4.03 billion in 2019 (Refer item 3A)</p> | -0.7 | | | | | | | | | | | | | | | | | | |
| (d) | <p>Decrease in local electricity sales</p> <p>The sales of electricity decrease from estimated 10.50 billion kWh in 2018 to estimated [REDACTED] billion kWh in 2019. 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="padding: 5px;">Million kWh</th> <th style="padding: 5px;">2018 Estimate</th> <th style="padding: 5px;">2019 Estimate</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Domestic</td> <td style="padding: 5px;">2,462</td> <td style="padding: 5px;">[REDACTED]</td> </tr> <tr> <td style="padding: 5px;">Commercial</td> <td style="padding: 5px;">7,743</td> <td style="padding: 5px;">[REDACTED]</td> </tr> <tr> <td style="padding: 5px;">Industrial</td> <td style="padding: 5px;">297</td> <td style="padding: 5px;">[REDACTED]</td> </tr> <tr> <td style="padding: 5px;">Total</td> <td style="padding: 5px;">10,502</td> <td style="padding: 5px;">[REDACTED]</td> </tr> <tr> <td style="padding: 5px;">Change Over Previous Year</td> <td style="padding: 5px;">-1.1%</td> <td style="padding: 5px;">[REDACTED]</td> </tr> </tbody> </table> | Million kWh | 2018 Estimate | 2019 Estimate | Domestic | 2,462 | [REDACTED] | Commercial | 7,743 | [REDACTED] | Industrial | 297 | [REDACTED] | Total | 10,502 | [REDACTED] | Change Over Previous Year | -1.1% | [REDACTED] | +0.8 |
| Million kWh | 2018 Estimate | 2019 Estimate | | | | | | | | | | | | | | | | | | |
| Domestic | 2,462 | [REDACTED] | | | | | | | | | | | | | | | | | | |
| Commercial | 7,743 | [REDACTED] | | | | | | | | | | | | | | | | | | |
| Industrial | 297 | [REDACTED] | | | | | | | | | | | | | | | | | | |
| Total | 10,502 | [REDACTED] | | | | | | | | | | | | | | | | | | |
| Change Over Previous Year | -1.1% | [REDACTED] | | | | | | | | | | | | | | | | | | |

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| | Rationales for tariff adjustment | Tariff impact (¢ / kWh) |
|---|---|------------------------------------|
| (1) | Basic Tariff | |
| (e) | All others | |
| | Change in Tariff Stabilisation Fund balance, interest & SOC taxation, etc. | +1.9 |
| | Sub-total (Basic Tariff): | -7.8 |
| | | |
| (2) | Special Rent & Rates Rebate | |
| | Return of rent & rates overcharged by Government (Decrease from 4.0 ¢/kWh to 2.3 ¢/kWh) | +1.7 |
| | Sub-total (Special Rent & Rates Rebate): | +1.7 |
| <p>Notes on the confidential figures:</p> <p>(i) Forecast Average Net Fixed Assets (ANFA) values might reveal future 2019 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.</p> <p>(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.</p> | | |

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| | Rationales for tariff adjustment | Tariff impact (¢ / kWh) |
|------------|---|------------------------------------|
| (3) | Fuel Clause Charge | |
| (a) | Expected increase in 2019 fuel price over 2018 Higher fuel clause chargeable per unit | +0.1 |
| (b) | Fuel Cost Recovery Difference (i.e. the total Fuel Clause Charge received minus “difference between Standard Fuel Cost and Actual Fuel Cost”) | -0.1 |
| | Sub-total (Fuel Clause Charge): | - |
| | | |
| (4) | Special Fuel Rebate | |
| | Reduced from 16.0 ¢/kWh to 2.3 ¢/kWh | +13.7 |
| | Sub-total (Special Fuel Rebate): | +13.7 |
| | | |
| | (1) + (2) + (3) +(4) Grand total: | +7.6 |

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| Fuel consumed (Tera-joules) | <u>2018 (Estimate)</u> | <u>2019 (Estimate)</u> |
|--|------------------------|------------------------|
| • Coal | 77,552 | |
| • Natural Gas | 32,173 | |
| • Oil | 487 | |
| Total | 110,212 | |

| Average Fuel Price (HK\$ per GJ) | <u>2018 (Estimate)</u> | <u>2019 (Estimate)</u> |
|---|------------------------|------------------------|
| • Coal | 29.7 | |
| • Natural Gas | 63.1 | |
| • Oil | 105.5 | |
| Overall | 40.0 | |

| Total Fuel Cost (\$ million) | <u>2018 (Estimate)</u> | <u>2019 (Estimate)</u> |
|-------------------------------------|------------------------|------------------------|
| • Coal | 2,300 | |
| • Natural Gas | 2,029 | |
| • Oil | 51 | |
| • Others | 26 | |
| Overall | 4,406 | |

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

| | | |
|--|-------|--|
| Standard fuel costs (Include in basic tariff) | 1,837 | |
| Fuel Clause Recovery Account | 2,569 | |
| Overall | 4,406 | |

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 2018 (\$ million) Estimate | Forecast Expense for 2019 (\$ million) Estimate | % Change |
|--|---|---|----------|
| Operating Expenses | | | |
| Employee expenses (1) | 785.9 | | |
| Materials & Services (note a) | 349.0 | 402.4 | |
| Loan charges (2) | 3.4 | | |
| Government Rent & Rates | 262.3 | 275.4 | |
| Contingency | 55.0 | | |
| Stocks/FA Write-offs (note b) | 83.5 | 100.3 | |
| Provision for Decommissioning | 315.3 | 172.5 | |
| Depreciation | 2,257.8 | 2,264.0 | |
| (A) Sub-total for Operating Expenses & Depreciation: | 4,112.2 | 4,032.9 | -1.9% |
| Interest (2) | 31.8 | | |
| Taxation (3) | 535.0 | | |
| (B) Sub-total for Interest & Taxation: | 566.8 | 646.0 | |
| Total Non-fuel Operating Expenses: | 4,679.0 | 4,678.9 | -0.0% |

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.