

**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<sup>[1]</sup> and Tariff Reviews<sup>[2]</sup>. 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

**Provision of information by CLP Power (CLP) on 2018<sup>[1]</sup> & 2019 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 2018 Development Plan <sup>[2]</sup>

<b>Categories<sup>[3]</sup> (\$ million)</b>	<b>Total 2018 Development Plan</b>
(A) Power Generation System	25,429
(B) Transmission & Distribution System	26,496
(C) Customer and Corporate Services Development	1,018
<b>Total (A + B + C)</b>	<b>52,943</b>

Remarks:

[1] Period covering Oct - Dec 2018.

[2] Period covering 1<sup>st</sup> Oct 2018 to 31<sup>st</sup> Dec 2023.

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

**Approved Major Projects in the 2018 Development Plan**Generation

No.	Projects	\$billion
1	New Combined Cycle Gas Turbine Unit (D1)	
2	New Combined Cycle Gas Turbine Unit (D2)	
3	Replacement of Combustion System of Black Point Power Station	
4	Water Management Facilities at Castle Peak Power Station	
5	Hong Kong Offshore LNG Terminal (including the gas pipeline to Black Point Power Station)	
6	Landfill Gas Renewable Energy Generation at WENT (Phase 1 and 2)	
7	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]	10.8

Transmission & Distribution

No.	Projects	\$billion
	<u>Meeting Load Requirements</u>	
1	Cable Installation inside Tuen Mun - Chek Lap Kok Link Tunnels	
2	Establishment of Hung Shui Kiu 'A' Substation	
3	Enhancement of Clean Energy Transmission System	
4	Uprating of SHE-TSE Overhead Line	
5	Uprating of BKP-CPK Overhead Line	
6	Establishment of South East Kowloon 'C' Substation	
7	Establishment of Fanling North Substation	
8	Establishment of Queen's Hill Substation	
9	Meeting Load Requirements - Others (Other projects < \$100m and many thousands of projects to meet customer demand)	8.0
	<u>Meeting Government/ Infrastructure Requirements</u>	
10	Establishment of Ho To West Substation	
11	Establishment of Airport 'E' Substation	
12	Reinforcement of Cheung Sha Substation	
13	Establishment of 2 x 132kV Cheung Sha - Integrated Waste Management Facilities (IWMF) Circuit	
14	Establishment of Desalination Plant Substation	
15	Establishment of Hong Kong-Zhuhai-Macao Bridge Substation	
16	Establishment of Airport 'F' Substation	
17	Meeting Government/ Infrastructure Requirements - Others (Other projects < \$100m and hundreds of projects to support Government's new railways, roads, bridges and redevelopment projects)	1.8
	<u>Maintaining Supply Reliability &amp; Quality</u>	
18	400kV Tower Lines Reinforcement for Super Typhoon	
19	Maintaining Supply Reliability & Quality - Others (Other projects < \$100m and many thousands network reinforcement projects to maintain supply reliability & quality)	4.3
	<u>Replacement &amp; Refurbishment</u>	
20	132kV Oil-filled Cable Replacement	
21	11kV Switchgear Refurbishment	
22	132kV Switchgear Refurbishment	
23	Asset Replacement & Refurbishment - Others (Other projects < \$100m and hundreds of projects to replace aged equipment)	2.1
24	Network Operation Systems (System Control, Protection, Telecommunications)	1.3
25	Advanced Metering Infrastructure Development	
26	Miscellaneous (Other projects < \$100m)	1.9

Customer and Corporate Services

No.	Projects	\$billion
1	Customer Billing & Services System & Centre Facilities	0.4
2	Corporate System Development (data storage, backup infrastructure & security system) and other support services	0.6

Total 52.9

**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.

## A2. Tariff Component by year - Five-year development plan forecast compared with annual tariff review

Tariff Component (cents/ kWh)	2018 <sup>1</sup>	2018 <sup>2</sup>	2019	2020		2021		2022		2023	
	Actual Tariff	DP Forecast/ Tariff Review <sup>3</sup>		DP Forecast <sup>4</sup>	Annual Tariff Review	DP Forecast <sup>4</sup>	Annual Tariff Review	DP Forecast <sup>4</sup>	Annual Tariff Review	DP Forecast <sup>4</sup>	Annual Tariff Review
(A) Basic Tariff	94.5	91.0		93.4		96.5		99.1		101.9	
<i>Increase/(Decrease)%</i>											
-- Annual		-3.7%		2.6%		3.3%		2.7%		2.8%	
-- Since Sep 2018		-3.7%		-1.2%		2.1%		4.9%		7.8%	
(B) Fuel Clause Charge <sup>5</sup>	22.0	27.8		32.4		36.2		37.4		37.4	
<i>Increase/(Decrease)%</i>											
-- Annual		26.4%		16.5%		11.7%		3.3%		0%	
-- Since Sep 2018		26.4%		47.3%		64.5%		70%		70%	
(C) R&R Special Rebate	-1.1	-1.1	-*	-		-		-		-	
(D) Net Tariff	<b>115.4</b>	<b>117.7</b>	<b>118.8*</b>	<b>125.8</b>		<b>132.7</b>		<b>136.5</b>		<b>139.3</b>	
<i>Increase/(Decrease)%</i>											
-- Annual		<b>2.0%</b>	<b>0.9%*</b>	<b>5.9%</b>		<b>5.5%</b>		<b>2.9%</b>		<b>2.1%</b>	
-- Since Sep 2018		<b>2.0%</b>	<b>2.9%*</b>	<b>9.0%</b>		<b>15.0%</b>		<b>18.3%</b>		<b>20.7%</b>	
Tariff Stabilisation Fund <sup>6</sup> (\$m)	<b>827</b>	<b>636</b>	<b>452</b>	<b>462</b>		<b>455</b>		<b>438</b>		<b>423</b>	
Fuel Clause Account <sup>6</sup> (\$m)	<b>1,018</b>	<b>693</b>	<b>394</b>	<b>-767</b>		<b>-614</b>		<b>7</b>		<b>24</b>	

\*At some point in the fourth quarter of 2018 or in 2019, the Rent and Rates refund available from Government as a "R&R Special Rebate" is expected to be used up, when the Net Tariff will be 118.8 cents per kWh.

1. Period covering Jan - Sep 2018.
2. Period covering Oct - Dec 2018.
3. The two exercises were done at the same time.
4. The tariff rates for 2020 to 2023 are projections only 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.
5. In accordance with the Monthly Fuel Cost Adjustment Mechanism agreed with the Government, the Fuel Clause Charge (FCC) will be automatically adjusted on a monthly basis after the new Scheme of Control Agreement (SCA) comes into effect on 1 October 2018 to reflect changes in actual price of fuel used.
6. These are the projected year-end /period-end balances of the Tariff Stabilisation Fund and the Fuel Clause Account.

**B. Materials related to tariff adjustments****B1. Tariff adjustment**

	2018 <sup>[1]</sup> Tariff ¢ / kWh	2018 <sup>[2]</sup> Tariff ¢ / kWh	2019 Tariff ¢ / kWh	Adjustment in 2018 <sup>[2]</sup> %	Adjustment in 2019 %
Basic Tariff	94.5	91.0		-3.7%	
Fuel Clause Charge	22.0	27.8		26.4%	
Rent & Rates Special Rebate	-1.1	-1.1	-*	-	-100.0%
Net Tariff	115.4	117.7	118.8*	2.0%	0.9%

Year end/ Period end Balance  
(\$ million)

- Tariff Stabilisation Fund	827	636	452
- Fuel Clause Account	1,018	693	394

\* At some point in the fourth quarter of 2018 or in 2019, the Rent and Rates refund available from Government as a “R&R Special Rebate” is expected to be used up, when the Net Tariff will be 118.8 cents per kWh.

[1] Period covering Jan - Sep 2018.

[2] Period covering Oct - Dec 2018.

## B2. The rationales for tariff adjustment

	<b>Rationales for tariff adjustment 2018<sup>[1]</sup> vs 2018<sup>[2]</sup> &amp; 2019</b>	<b>Tariff impact (¢/kWh)</b>
(1)	<b>Basic Tariff</b>	
(a)	<b>Decrease in Rate of Permitted Return</b> Rate of Permitted Return is lowered from 11% (Average Renewables Net Fixed Assets) and 9.99% (Average of Other Net Fixed Assets) to 8%	-7.7
(b)	<b>Increase in Average Net Fixed Assets</b> Increase from [REDACTED] in 2018 <sup>[1]</sup> to [REDACTED] in 2018 <sup>[2]</sup> & 2019, the majority of which is related to investment in our generation facilities and transmission & distribution network to meet supply reliability and customer demand	+2.8
(c)	<b>Increase in Operating Expenses</b> Increase of operating expenses per unit sold is 2.1 ¢/kWh	+2.1
(d)	<b>Decrease in Sales to Mainland</b> Lower benefit to tariffs as sales decrease from 540GWh in 2018 <sup>[1]</sup> to [REDACTED] in 2018 <sup>[2]</sup> & 2019	+0.8
(e)	<b>Tariff Stabilisation Fund Balance</b> Tariff Stabilisation Fund balance increases from \$746 million in 2017 to \$827 million at the end of 2018 <sup>[1]</sup> , but decreases to \$452 million at the end of 2019	-1.5
	<b>Sub-total (Basic Tariff):</b>	-3.5

[1] Period covering Jan - Sep 2018.

[2] Period covering Oct - Dec 2018.

	<b>Rationales for tariff adjustment 2018<sup>[1]</sup> vs 2018<sup>[2]</sup> &amp; 2019</b>	<b>Tariff impact (¢/kWh)</b>
(2)	<b>Fuel Clause Charge</b>	
(a)	<b>Increase in Fuel Price</b>  Increase of fuel price per unit sold is 2.6 ¢/kWh	+2.6
(b)	<b>Correction for the over-/under-recovery of fuel cost</b> (i.e. the total Fuel Clause Charge received minus “difference between Standard Fuel Cost and Actual Fuel Cost”)  The amount of under-recovery of fuel cost in 2018 <sup>[1]</sup> is \$1,194 million	+4.7
(c)	<b>Fuel Clause Account Balance</b>  Fuel Clause Account balance decreases from \$1,018 million at the end of 2018 <sup>[1]</sup> to \$394 million at the end of 2019	-1.5
	<b>Sub-total (Fuel Clause Charge):</b>	+5.8
	<b>Grand total:</b>	<b>2.3</b>

[1] Period covering Jan - Sep 2018.

[2] Period covering Oct - Dec 2018.

**Notes to the confidential figures:**

- a. Forecast Average Net Fixed Assets (ANFA) values might reveal future 2018<sup>[2]</sup> & 2019 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**

	2018 Forecast		2019 Forecast	
	GWh	Incr./ (Decr.) <u>over 2017</u> %	GWh	Incr./ (Decr.) <u>over 2018</u> %
Local sales				
• Commercial	13,319	0.7		
• Residential	9,210	(0.1)		
• Infrastructure & Public Services	9,122	1.5		
• Manufacturing	1,649	(5.2)		
<b>Total Local Sales</b>	<b>33,300</b>	<b>0.4</b>		

Total forecast local sales for 2018<sup>[1]</sup> & 2019 is

[1] Period covering Oct - Dec 2018.

**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

<b>Fuel consumed</b> (‘000 terajoules)	<u>2018<sup>[1]</sup> Forecast</u>	<u>2018<sup>[2]</sup> &amp; 2019 Forecast</u>
• Coal	116.2	
• Natural Gas	56.6	
• Oil	2.6	
• Others (include Interconnection)	6.2	
<b>Total</b>	<b>181.6</b>	
<b>Average Fuel Price</b> (HK\$ per gigajoule)		
• Coal	28.8	
• Natural Gas	100.3	
• Oil	107.7	
• Others (include Interconnection)	96.4	
<b>Overall</b>	<b>54.5</b>	
<b>Fuel Cost (\$ million)</b>		
• Coal	3,342	
• Natural Gas	5,678	
• Oil	279	
• Others (includes Interconnection)	600	
<b>Total</b>	<b>9,899</b>	
Standard Fuel Cost	2,889	
Fuel Cost exceeding Standard Fuel Cost	7,010	

[1] Period covering Jan - Sep 2018.

[2] Period covering Oct - Dec 2018.

**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

<b>Items for Non-Fuel Expenses</b>	<b>Forecast Expense for 2018<sup>[1]</sup> (\$ million)</b>	<b>Forecast Expense for 2018<sup>[2]</sup> &amp; 2019 (\$ million)</b>
Operating Costs		
Payroll	1,088	
Material & Services	1,131	2,724
Loan Charges	26	
Government Rent & Rates	588	1,046
Fixed Asset Disposal	276	449
Exchange Loss / (Gain)	-	
Power Purchase from PSDC	387	697
Sub-total for Operating Costs:	3,496	6,876
Nuclear Power Purchase	4,560	7,126
Provision for Asset Decommissioning	245	29
Depreciation	3,699	5,842
Additional Cost Optimisation	(113)	(187)
Total Non-fuel Operating Expenses before Operating Interest and Taxation:	11,887	19,686
Operating Interest	812	
Taxation	1,556	
Total Non-fuel Operating Expenses:	14,255	23,186

[1] Period covering Jan - Sep 2018.

[2] Period covering Oct - Dec 2018.

**Notes on the confidential figures:**

- The 2018<sup>[2]</sup> & 2019 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.