CEO's Strategic Review

+ Richard Lancaster
Chief Executive Officer

Our transformation into a Utility of the Future is well underway. Our strategy, underpinned by our core values with a clear path to net zero, is central to how we manage our business regardless of the external shocks and unexpected macroeconomic changes in the current environment.

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We report our 2022 results in the context of an energy crisis that began in Europe before spreading around the world. During the year, we were focused on navigating this landscape at a time when the impact of COVID-19 remained so real, while staying on track with delivery against our strategy to decarbonise and digitalise our operations.

At times such as these we look not just to our strategy but also to our Value Framework, with care for people, customers, community, environment and performance at the centre of not just what we do but how we do it. Just as our strategic priorities have been in evidence in 2022, so too have our core values.

Hong Kong

Our business in Hong Kong is at an important moment as 2023 will see us working with the Hong Kong Government on the Development Plan for 2024-2028. The SoC Agreement is a clear framework for our business in our home market and allows us to invest with the right degree of certainty to ensure we deliver world-class electricity services to customers while working to meet the Government's policy objectives, including the 2050 climate targets.

We believe maintaining investment for the period to 2028 will be important for the city's energy security and reliability, a critical ingredient of which is diversification. That is why CLP has brought nuclear power to Hong Kong across the border since decades ago and recently invested in additional capacity at Black Point Power Station. The offshore LNG terminal, which began construction long before the current energy crisis, will prove even more strategically significant than initially imagined. The infrastructure underlines the importance of long-term planning in the energy industry where investments often take years to materialise and last for decades. On the other hand, early planning also affords sufficient time for us to repurpose existing facilities as a cost-effective and flexible way to lower emissions, as we pay close attention to the growing potential of hydrogen in facilitating the energy transition.

In line with the increase in invested capital, operating earnings from Hong Kong energy business increased 3.2% in 2022 to HK$8,403 million.

Due to enter service in 2023, the offshore LNG terminal underlines the importance of long-term planning in the energy industry, further strengthening the security of Hong Kong's energy supply.

At a time of elevated and volatile energy prices globally, Hong Kong is inevitably affected. We understand everyone is concerned about electricity tariff, and we did our best to minimise the impact of rising fuel cost through a fuel diversification strategy in which nuclear energy plays a key role. We also managed to maintain our Basic Tariff at the same level for three years in a row with stringent cost controls measures. Although there was an increase in tariff at the start of the year, it is worth noting that the scale did not reach the magnitude seen in many other parts of the world. In addition, we are providing rebates as well as incentivising some sectors in our community to save energy. The CLP Community Energy Saving Fund has launched a series of initiatives, including the HK$100 million CLP Fuel Cost Subsidy Programme, to support families in need.

As the largest power company in Hong Kong, customers are our primary focus and our strategy seeks to get better at how we offer them technology-enabled, greener energy services. During the year we continued to invest in the digitalisation of the energy system from smart meters and Feed-in Tariffs to EV charging.

We have announced a collaboration with the Chinachem Group to upgrade the chiller system of its iconic Nina Tower to dramatically improve efficiency and to make it zero-carbon and renewable energy certified. We are working with property company Shui On Group on a similar project and also with real estate investment trust Link Asset Management Limited to bring solar power and battery storage to their buildings. These projects see our strategy in action: in partnership, bringing EaaS at scale to key sites and decarbonising our communities.

In June 2022, a cable bridge fire led to a loss of service and disruption in a few districts, affecting a large number of customers. Our engineers worked tirelessly over the night to restore service in the next morning and we once again would like to apologise for the inconvenience caused. A thorough investigation completed in August 2022 revealed the likely cause was a rare fault in a fluorescent light. However rare, we take such incidents extremely seriously and we have taken on board all the recommendations of the investigation panel. We have also conducted a comprehensive review of our facilities and implemented a series of actions to minimise the chances of such an event occurring again.

CEO Richard Lancaster discusses decarbonisation in the energy industry and sustainable economic development at the Climate Change Hong Kong Summit.

Mainland China

Our business in Mainland China has seen strong performance in 2022 rooted in the non-carbon portfolio. During the year, operating earnings were HK$2,229 million, a 34.3% increase from a year ago.

Our nuclear investments reported robust performance, providing energy security to Hong Kong in addition to their contribution to the Group's financial performance. In particular, generation at Yangjiang Nuclear Power Station reached a record high as electricity demand continued to grow.

The renewable energy portfolio has continued to deliver steadily. The Qian'an III wind project began commercial operations in March 2022 and other renewable energy projects including the Xundian II and Bobai wind farms have made good progress. All three projects do not rely on government subsidies. At the same time, construction of an 80MW solar project in Jiangsu province has begun while a build-and-transfer agreement for a 100MW solar project in Guangdong province has been signed.

Meanwhile, thermal assets saw higher earnings due to increased tariffs, despite the impact of raised coal prices.

We made further forays into digitally led EaaS projects in 2022, including our collaboration with the MTR Corporation (Shenzhen) Limited on a distributed solar project at its headquarters building in the Longhua District in Shenzhen and our investment in Beijing-based Venturous Group to develop smart energy technology businesses in the GBA.

In line with our focus on zero-carbon projects, we have sold our 70% stake in Fangchenggang Power Station. The transaction will provide us with the capital to accelerate our investment in clean energy projects and keep us on track with our Climate Vision 2050 commitments.

The scale of opportunity in China is huge, as is the level of contributions to the Group. In addition to the financial contribution, the Mainland will play a growing role in the energy security, affordability and sustainability for Hong Kong. Integrated energy systems, underpinned by a diversified strategy, are core to our energy future, especially given the Chinese Government's clear ambition to increase the overall percentage of renewable energy.

Looking ahead, we will continue to focus on the development of new grid-parity renewable energy projects which can play an important role in local security of supply, as well as sustainable energy solutions and strengthened collaboration.

Australia

Our business in Australia continued to be impacted by unprecedented conditions. It has been a more volatile market for some time and a confluence of factors have affected recent performance, including an operating loss of HK$5,267 million recorded in 2022.

Entering into forward energy contracts is a very well-established and common market and CLP practice. In normal times, this reduces exposure to market volatility and secures earnings in advance, subject to our own generation assets being able to meet the contracted supply. In the case of EnergyAustralia, most of its generation was contracted in advance of the sharp increases in wholesale electricity prices in 2022, meaning the sold contract prices were significantly lower than elevated spot market rates. This coincided with the shortfalls in coal-fired generation at Yallourn Power Station because of unplanned outages, and at Mount Piper Power Station due to less coal than contracted being supplied, resulting in increased costs to settle the forward contracts and a negative impact on EnergyAustralia's financial performance.

In addition, the requirement to mark-to-market forward energy contracts against higher prevailing energy prices resulted in large negative fair value movements at the end of the year, although our position was much improved in December 2022 compared with half a year ago thanks to a moderation in prices. These unrealised losses are based on our open contract positions at a particular point in time and are subject to change.

The performance of our retail business in Australia has improved, delivering growth in the overall number of accounts through higher customer acquisitions and lower churn. We have continued to provide support to customers impacted by higher power costs and cost-of-living issues in addition to the relief measures for those affected by flooding in eastern Australia in 2022. However, the operating environment remains competitive and continues to see a high level of government intervention.

We continue to invest in the transition to a clean energy future with new forms of on-demand generation capacity and flexible assets which play an important role alongside renewables. We have partnered with Edify Energy on two new battery projects in New South Wales and we are studying a grid-scale 500MW battery project at our existing site in Mount Piper.

The construction of a second gas-fired turbine at Tallawarra Power Station in New South Wales remains on track, as is the Kidston pumped hydro storage project in Queensland. The business also commenced planning for the Wooreen battery energy storage system in Victoria and technical investigations for a proposed pumped hydro project have begun at Lake Lyell in New South Wales.

Our focus for the year ahead is on enhancing the performance of Yallourn and the security of coal supply to Mount Piper. Strategically, we are also adding a strong base of flexible capacity to support our presence in the customer market and generation capabilities. This provides a powerful platform for others with investment potential to enter the market in partnership and support Australia's energy transition.

India

After the sale of an additional 10% stake in Apraava Energy to CDPQ, the strengthened strategic partnership enables our Indian business to pursue faster growth in clean energy investments including renewable energy, transmission and smart meters through a strong platform with more capital. However, the successful completion of our sell-down on Apraava Energy has resulted in a loss of HK$3,537 million.

There has been continued progress on construction of the new 251MW Sidhpur wind project in Gujarat state, a project that is expected to be fully commissioned in the first half of 2023. Apraava Energy continues to explore other renewable energy opportunities.

Overall wind and solar generation dropped compared to 2021 due to lower resources and some one-off operational issues, most of which have been resolved. There were also strong operations at Jhajjar Power Station although contributions were affected by lower capacity charges. In 2022, operating earnings for Apraava Energy decreased 12.7% to HK$193 million. During the year, overdue receivables from state distribution companies related to the purchase of renewable energy have shown a welcome reduction with the support from a Central Government scheme.

Our transmission assets have brought higher contributions after the addition of a new interstate project and we see plenty of potential for Apraava Energy to further invest in transmission and distribution. In addition, Apraava Energy is foraying into the advanced metering infrastructure business after becoming the most competitive bidder for two projects to install around 3 million smart meters in Assam and Gujarat states.

We recognise the unique challenges and opportunities presented in India's energy transition. Our strengthened strategic partnership with CDPQ gives us an excellent platform to contribute to the transition and achieve further growth.

Focussing on the future, today

Our transformation into a Utility of the Future is well underway. Our strategy, underpinned by our core values with a clear path to net zero, is central to how we manage our business regardless of the external shocks and unexpected macroeconomic changes in the current environment. We can now see a stable core business, on plan, managing specific challenges and ensuring we maintain performance while investing in new opportunities not just to deliver our own energy transition but also support that of others.

The global energy crisis and price volatility have underscored the importance of careful coordination and long-term planning to ensure we maintain our focus on people, customers, community, environment and performance. This is a moment where we need to stay committed to executing a strategy that is designed to drive growth through new opportunities building on our existing strengths and capabilities.

Finally, I want to acknowledge CLP's people across the Group, who have continued to work hard to deliver a better future for customers, shareholders and communities. They have stayed focused on operating CLP's assets safely, serving customers and communities, and supporting each other through very challenging times. I thank them sincerely for their efforts.

These moments of uncertainty demand that we look at our markets in new ways. But we must also view ourselves through new lens: our future growth and success no longer rest solely on the operation of assets or discrete business units in regions, but on an integrated approach with diversification across geographies and through partnership. Our progress on that strategic journey continues.

Richard Lancaster
Hong Kong, 27 February 2023

Ms Rita Shang
Shareholder

How do you manage the delivery of a long-term strategy in the context of these ultra short-term shocks in the global energy markets?

Richard Lancaster
Chief Executive Officer

This is exactly the challenge that society, governments and communities around the world are facing. Climate change requires us to act now to prevent devastating consequences that will come in decades. We need to commit to a long-term strategy of transitioning to net zero with targets stretching all the way to 2050 despite short-term challenges that often distract us along the way.

We must manage today's global shocks and crises that feel ultra short-term and get measured in months, weeks or even days while also staying committed to our long-term strategy. The reason is simple – today's resilience and the ability to manage short-term shocks are built on long-term vision and approaches formed decades ago. Take our business in Hong Kong as an example, CLP has introduced nuclear power and natural gas back in 1990s with an aim to diversify its fuel mix for electricity generation. Last year, nuclear power with its stable cost played a key role in helping us manage the impact of a global energy crisis and surging fuel prices.

We have already made investments in the long-term energy future including into assets that will help us navigate through future periods of short-term volatility, when they come. That is the key to a successful transition: by investing in decarbonising our business with the aid of technology and in sustainable energy solutions that help customers decarbonise, we're building resilience for tomorrow and well into the future.