

7 November 2012

CLP provides supplementary information in response to recent media reports and public concern about various operational issues

In light of the recent media reports on CLP's various operational issues which have also been areas of public concern, CLP would like to take the opportunity to provide supplementary information about generating capacity and reserve margin, sale of electricity to China, Fuel Clause Account, expenditure of energy efficiency and monitoring mechanism to facilitate public understanding about them.

1. Generating capacity and reserve margin

CLP provides high level of electricity service to meet the evolving needs and expectations of the community. At 99.999%, CLP's supply reliability is better than many major metropolitan cities in the world such as New York, London and Sydney. Our average unplanned outage for each customer during 2009-2011 is only 2.3 minutes per year, which is much lower than London (44 minutes), Sydney (29 minutes) and New York (15 minutes). Supply reliability is important not only to the society's operation but also critical in the cases of health and life emergency, social security and competitiveness of Hong Kong. As electricity cannot be efficiently stored, electricity demand needs to be met at all times by the amount of electricity supplied. Any imbalance in supply and demand in a power system, even only for a fraction of second, may lead to system instability or even large scale blackout. To ensure system reliability, CLP has to set a sufficient level of generating capacity as reserve margin to cater for any loss of generating units due to a forced outage.

CLP's generating capacity is 8,888MW. It is planned solely based on our local demand. This is monitored by the Government through the existing mechanism under Scheme of Control Agreement including the Five-Year Development Plan Review and the annual Auditing Review.

CLP sets the level of reserve margin by making reference to the maximum electricity demand as one of the most important indicators for planning and operation. This is in line with the practices adopted in the electricity industry all over the world. Based on international practice, sufficient reserve margin should be kept to cater for loss of generating units due to faults. The level of reserve margin required is dependent on a number of factors including the size of the power system and the reliability level required etc. The higher the need for reliability in a small power system, the higher the percentage reserve margin tends to be. Hong Kong is one of most densely-populated cities in the world where people mostly live or work in high-rise buildings, so supply reliability is of the utmost importance for our safety, our society and our economy.

Typically, the reserve margin recommended by the International Energy Agency (IEA) is 20% to 35%. In 2011, CLP's reserve margin was 33%.

2. Sale of electricity to China

CLP's supply of electricity to China is made available only by making use of its reserve capacity under the principle that customers in Hong Kong will have priority and that the sale of electricity to China is made on an interruptible basis. In 2011, electricity sales to China accounts for only about 8% of CLP's total sales.

80% of the profit derived from electricity sales to China goes to the Tariff Stabilisation Fund, which has proved to be an effective platform to help relieve pressure on tariffs. Taking year 2009 as an example, profits from CLP's supply to China that has contributed to TSF was HK\$554 million, without which our local customers would have paid 1.8 cents per kWh more for electricity supply. The corresponding figures for years 2010 and 2011 were HK\$350 million and HK\$298 million, and 1.1 cents per kWh and 1.0 cents per kWh respectively.

3. Fuel Clause Account

CLP operates the Fuel Clause Account on a fair basis.

CLP buys fuel on behalf of customers to generate electricity required for meeting customers demand. Cost of fuel consumed by CLP is recovered by direct pass through to customers.

Fuel Clause Account (FCA) captures the variations between the actual cost of fuel CLP incurs and the fuel cost CLP charges customers (via Fuel Clause Charge on the bill). The balance of the FCA (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers.

In the case of a deficit balance in the FCA, interest charged to customers on the amount under recovered is based on the actual borrowing cost of CLP Power Hong Kong. In contrary, in the case a positive balance in the FCA, interest is credited to customers at prime rate on the amount over-recovered. The carrying amount of the FCA approximates to its fair value.

4. Expenditure of energy efficiency

CLP has been promoting energy efficiency and conservation by undertaking a wide range of public education and promotional activities as well as providing energy audits for consumers. The annual expenses incurred by the energy efficiency and conservation activities required by the Scheme of Control amount to about HK\$8 million since 2009. This expenditure on energy efficiency has an insignificant impact on tariff.

5. Monitoring mechanism

CLP maintains a high level of transparency by publishing its performance in financial, operational and environmental aspects in its Annual Reports and Sustainability Reports that are conveniently accessible to the public.

As stipulated in the Scheme of Control Agreement signed between CLP Power, Castle Peak Power Company Limited (CAPCO) and Hong Kong Government, the operational and financial performance of CLP and CAPCO, including the investment of the company is under close scrutiny of the Hong Kong Government. Investment proposals by the companies are submitted in the form of 5 Year Development Plans while its annual performance is examined through the Annual Auditing Review.

About CLP Power Hong Kong Limited

CLP Power Hong Kong Limited (“CLP Power”) is the Hong Kong utility subsidiary wholly owned by CLP Holdings Limited, a company listed on the Hong Kong Stock Exchange and one of the largest investor-owned power businesses in Asia. CLP Power operates a vertically integrated electricity supply business in Hong Kong, and provides a highly reliable supply of electricity and excellent customer services to 5.8 million people in its supply area.

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