

8 December 2016

中華電力有限公司
CLP Power Hong Kong Limited

CLP Power's Response to Media Enquiries

Below is CLP Power Hong Kong Limited (“CLP Power”)’s response to media enquiries today (8 December) on various subjects:

Fuel Expenditure

- The actual cost of fuel is passed through to customers directly and CLP Power does not benefit from it in the process.
- According to the existing mechanism, Fuel Cost Adjustment is reviewed and adjusted annually. Fuel prices projections are made on the basis of the best available information and the prevailing economic trends. We also take into consideration a host of factors when making estimations, including major fuel prices indexes, published market forecasts and projections made by experts.
- International fuel prices are highly volatile and it is beyond the ability of any organisations or companies to accurately predict price movements. CLP Power only follows the general practice of the power industry to make projections on fuel expenditure.
- Under the current Scheme of Control Agreement, the Fuel Clause Recovery Account (FCA) is established as a buffer to stabilise tariffs by mitigating fuel cost movements. It can help stabilise Fuel Cost Adjustment when fuel prices are high. When fuel prices are low, the saved fuel cost from the FCA balance could be returned to customers.
- The effectiveness of the FCA mechanism is reflected in the arrangement in August last year when CLP Power offered a Special Fuel Rebate to its customers. All CLP Power customers received a special fuel rebate of 8 cents per unit based on their electricity consumption between January and June in 2015. The total amount of rebate at approximately HK\$1.2 billion was drawn from the FCA.
- The FCA balance stood at about HK\$2.2 billion at the end of 2015, equivalent to about 18%, or about two months’ fuel expenditure, of the company’s annual fuel expenditure at approximately HK\$12.7 billion. We believe that maintaining a healthy balance of FCA is necessary to achieve the purpose of stabilising tariffs against fuel price volatility.

- The FCA balance is generally publicised in announcements of the CLP Group's interim results and annual results.

Fuel Clause Account (FCA) Balance and Fuel Cost

	2014	2015	2016
Half-year FCA Balance (as of 30 June)	HK\$2.091 billion	HK\$1.597 billion	HK\$2.795 billion
Full-year FCA Balance (as of 31 Dec)	HK\$2.966 billion	HK\$2.226 billion	
Full-year fuel expenditure (as of 31 Dec)	HK\$10.375 billion	HK\$12.682 billion	

Future Fuel Cost Trend

- CLP Power has been closely monitoring the fuel price trends. Despite OPEC's recent announcement to cut oil production, causing the fuel prices to surge, oil-fired generation only accounts for a very small fraction in CLP Power's fuel mix. However, in support of the Government's target to increase the percentage of local gas generation to around 50% of the total fuel mix in 2020 and the increasingly tightened emissions requirements, CLP Power expects that the usage of the costly natural gas will increase in future, leading to higher fuel costs.
- CLP Power publishes its monthly energy costs on its company website at the following link:
<https://www.clp.com.hk/en/community-and-environment/green-tools/energy-costs>

Tariff Review

- CLP Power's tariff is affected by a host of factors including electricity demand, sales, operating cost and fuel cost. Every year, CLP Power is required to submit to the Government a tariff proposal for review. Information in the proposal includes electricity sales, maximum demand forecasts, total capital expenditure, total operating expenditure, cost of fuels, basic tariff rate, etc. Upon Government's review, the basic tariff will be implemented on 1 January of the following year.

New Gas-fired Generating Unit

- CLP Power has proposed building an additional gas-fired generation unit at Black Point Power Station in support of the Government's target to increase the percentage of local gas generation to around 50% of the total fuel mix in 2020. Subject to the final approval of the Government, the new unit is expected to commence commercial operation before 2020.
- As stipulated in the Scheme of Control Agreement, the investment incurred will be booked in phases according to standard accounting procedures and construction progress. As the new generation unit will have a long life span of 25 years or above and the cost incurred will be spread over many years, the impact on tariffs will not be significant.

- Ends -

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 6 million people in its supply area.

Media Enquiry Hotline: (852) 7472 9248