

29 May 2014

Dear Shareholder,

Early this month, I reported to you at our AGM that we would soon be presenting our views to the Government in response to its consultation paper on the future fuel mix for electricity generation in Hong Kong. We have delivered our submission, an executive summary of which I enclose for your information. This has been a carefully considered document, and I encourage you all to read it as it affects not only your company but the wider Hong Kong community as well. (For details of CLP's submission, please visit https://www.clpgroup.com/CLP_Response_eng)

We believe that determining the "right" option for Hong Kong's future fuel mix is undeniably challenging because the decisions we make today will affect us for decades to come. It is crucial that our decisions – to be made jointly by the Government and the community – must strike a workable balance between ensuring a reliable supply of electricity, environmental protection and affordability. At the same time, we must take into account the impact of a volatile international fuel market and future technological advances. It is for this reason that we believe that a phased and flexible approach – in short, keeping our options open – will serve the best and long-term interests of Hong Kong.

As you know, energy investment involves long-term, capital intensive and technologically heavy undertakings. We should allow ourselves ample flexibility and time to make the right and informed decisions. Having said that, once a decision is made, CLP will stand ready to implement it.

For CLP, Hong Kong is our home. Like so many of our shareholders and customers, I was born here and I have lived here my entire life. The fuel mix decision affects our generation and that of our children and it is imperative that we get it right. Your views are important and I urge you to make them known to the Government by 18th June before the consultation period closes so that you can help shape this important decision for Hong Kong.



The Hon Sir Michael Kadoorie
Chairman

CLP's RESPONSE TO THE FUTURE FUEL MIX FOR ELECTRICITY GENERATION PUBLIC CONSULTATION



The Government has recently published an important consultation on the future fuel mix for electricity generation in Hong Kong. Two alternatives are identified: Option 1 assumes that approximately 30% of future needs are met through grid imports of power from the Mainland; and in Option 2 these needs are met by using more natural gas for local generation.

CLP's View:

Both options present opportunities and challenges. CLP believes that a phased and flexible approach, which combines both planning for initial gas units and intensive study for a new cross-border interconnector, would deliver the best long-term value for Hong Kong

Hong Kong has benefited from a highly reliable electricity supply at relatively low cost for many years. When looking at options for change, we need to consider an appropriate balance between the main objectives of reliability, environmental performance and costs. That balance also needs to take into account preserving the flexibility and optionality in the long-term interests of Hong Kong as annual fuel costs represent a significant part of electricity bills. The best protection for Hong Kong consumers against volatility in energy prices is to have the capability to use local gas generation when it is cheaper than imported low carbon energy or vice versa. In this way, over the longer term, it may make sense to have both Option 1 and Option 2 available.

We believe that a small number of highly efficient new gas units could be needed by 2020, regardless of whether Option 1 or Option 2 is pursued in the longer term, to further reduce air and carbon emissions.

At present, Option 2 provides a more certain result in terms of maintaining electricity supply reliability as well as real improvements in emissions performance. Although untested, Option 1 has the potential to provide more opportunities in the longer term for importing lower carbon electricity as the Mainland's reliability continues to improve. This would need both careful planning and further studies to ensure that our current reliability will not be compromised and that it is acceptable to the community.

The first stage of Option 1 for the new cross-border interconnector is to study how it might be done, at what cost and how much low carbon energy Hong Kong could purchase, by when. We believe that this detailed technical and commercial study should commence now, since it will take considerable time to complete properly.

The first stage of Option 2 is to begin the planning and engineering design work for the initial gas fired generating units in time to support the local air quality and carbon objectives set by the Government for 2020.

Before committing to build further gas units under Option 2, or to approve the financial investment in a new interconnector with the Mainland, we can look at circumstances at that time, including relative energy prices and whether there is still strong demand growth for electricity in Hong Kong, even with the efforts of the Government and the Community to reduce energy use in the next few years. If our electricity demand is still growing and reliable supplies of low carbon energy are available from the Mainland at the right price compared to local gas generation, we can move closer to a decision for the new interconnector.

The decision (and more importantly, the commitment) for the investment in Option 1 does not need to be made now, given that the lead time for a new cross-border interconnector is at least 10 years. As detailed studies must come first, the community can make a more informed decision later on whether to pursue Option 1, or to continue with Option 2, depending on Hong Kong's needs, energy prices and the performance of the Mainland grid at that time.

Both options have opportunities and challenges. We do not believe that the community should have to make a once and for all definitive choice between Option 1 and Option 2 now, nor do we believe both should be implemented at once. A phased and flexible approach in a long-term plan that seeks to maximise the advantages of each proposal at the minimum cost to customers would allow Hong Kong more time and options to gauge what is the best way forward whilst maintaining the reliability and security of our electricity supply, allowing a choice in energy supplies, delivering environmental performance improvements and minimising over-investment in energy infrastructure until more certainty on costs and benefits is available.

In summary, CLP's position is:

- **Start NOW on planning the initial phase of Option 2 to meet Hong Kong's immediate electricity needs by building a small number of new gas units in Hong Kong**
- **Start NOW on a detailed study for Option 1 to see how the Mainland could provide highly reliable supplies of low carbon energy at a reasonable cost**
- **Avoid over-investment by reviewing the future demand for electricity and relative energy prices when this work is completed, before deciding whether to build the new interconnector or further gas units in Hong Kong, or a selective combination of the two**

We have choices for our energy future and Hong Kong has the option to make these decisions more effectively as we get more information in a progressive manner, rather than having to make them all in one go now.

To: Environment Bureau, Electricity Reviews Division

(Public Consultation on Future Fuel Mix for Electricity Generation for Hong Kong)

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Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong

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Option 1

Importing more electricity through purchase from the Mainland power grid	
Import	
Nuclear (DBNPS)	20%
Grid Purchase	30%
Natural Gas	40%
Coal (& RE)	10%

Option 2

Using more natural gas for local generation	
Import	
Nuclear (DBNPS)	20%
Grid Purchase	–
Natural Gas	60%
Coal (& RE)	20%

Comments and suggestions

Please send response to the Environment Bureau before **18 June 2014**.