

18 May 2015

Dear Shareholders,

The Government has launched a three-month public consultation on the future development of the electricity market. As I explained at our Annual General Meeting, this is a vitally important issue the outcome of which will affect Hong Kong for generations to come. As always, we will contribute positively and constructively to the consultation. We plan to submit our response in June and I encourage you to submit your views to the Government as well, given that the outcome of the consultation will affect not just our company but Hong Kong society as a whole.

Electricity supply is an essential service and the infrastructure required to ensure reliable and timely delivery to customers takes time to plan and build – often a decade or more – and requires huge capital outlays. It follows that certainty in regulatory regime and reasonable returns on investment are critical in ensuring that sufficient funds are available to deliver the high quality, safe, reliable and environmental electricity supply expected by the community.

The Scheme of Control Agreement has served Hong Kong well for over five decades. It has delivered good results and helped balance competing objectives, so we must be clear about what the objectives are in contemplating any change. This is exactly why your views are so important. The opportunity is upon us to speak up now so that your voices will be heard. We together can help frame the most appropriate and workable regulatory arrangement that will deliver the best long-term value for Hong Kong in the decades to come.

Attached with this letter is a leaflet covering the salient points of the public consultation along with the response form provided by the Government. Please submit your views before the consultation period closes on 30 June 2015. You may refer to the leaflet for details. If you have any query, you may call CLP hotline at 852-26782678.

I sincerely urge you to take this opportunity to share your own views. The decisions that follow will shape our future.



The Hon Sir Michael Kadoorie
Chairman

Public Consultation on the Future Development of the Electricity Market

Share Your Views by 2015.6.30

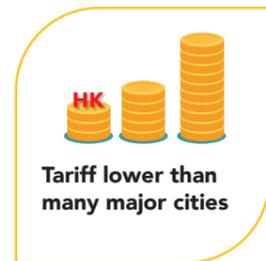
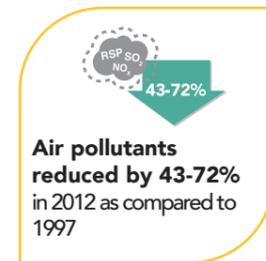
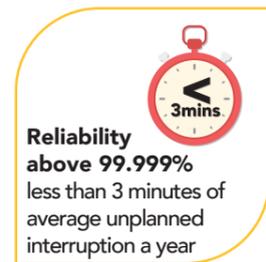


Objectives

- The Scheme of Control Agreements (SCAs) will expire in 2018
- Due regard to the four energy policy objectives and our goal to introduce competition



Current Performance



Competition in the Electricity Market

- No new, sizable electricity supplier in 2018
- To facilitate distributed generation
- To undertake preparatory work to pave the way to introduce competition :



To discuss with power companies and conduct a joint study on the **arrangements for access to the grids by new players**



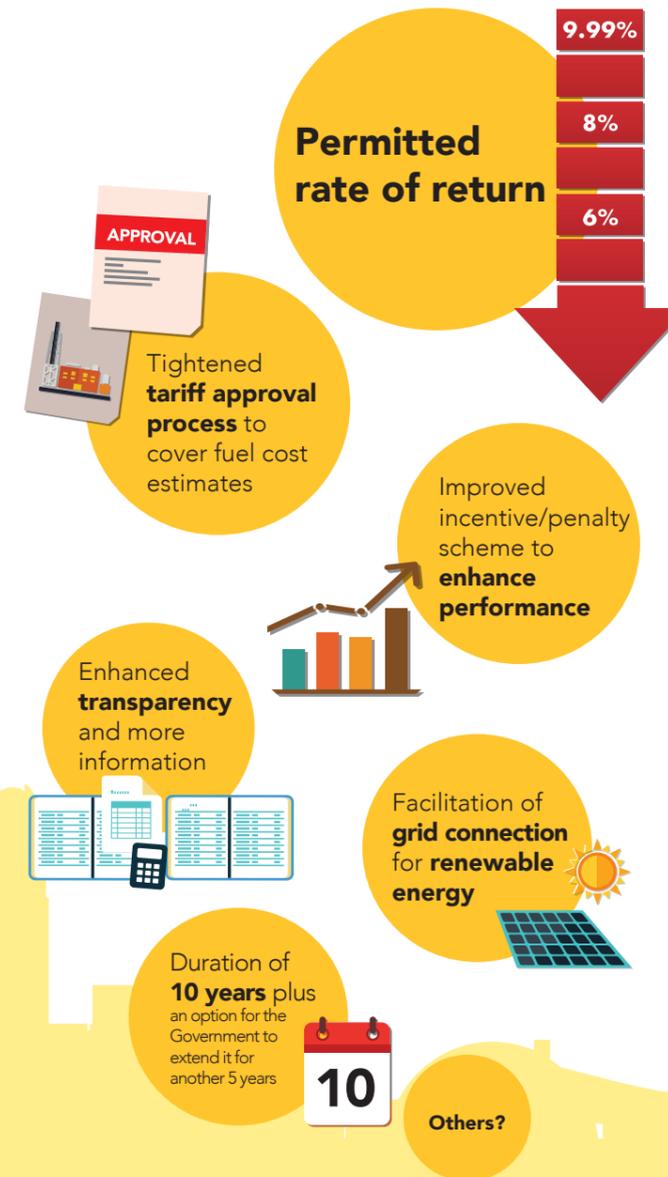
To conduct a study on **enhancing the interconnection** with the Mainland grid and between the local grids



To pursue with power companies on **publishing the segregated annual cost data** pertaining to their generation, and transmission and distribution systems

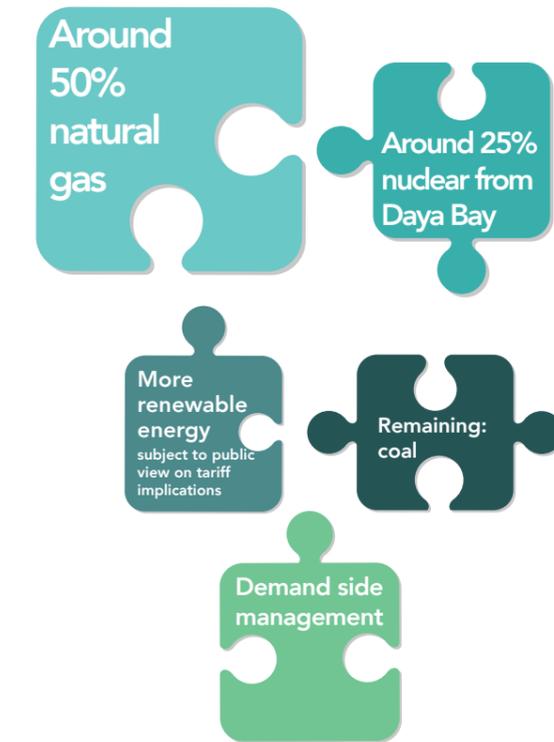
Future Regulatory Arrangement

- The SCAs have largely been serving us well
- Key areas requiring review :



Future Fuel Mix

- Over 86 000 submissions received during the fuel mix consultation
- Majority supported local generation by natural gas
- To meet the environmental targets for 2020:



- Q1** How important is choice to you in respect of the supply of electricity? What objectives do you consider should be achieved through introducing competition to the electricity market?
- Q2** To what extent do you think the current contractual arrangement by SCAs has allowed us to achieve the energy policy objectives of safety, reliability, affordability and environmental protection, and what problems do you see with this regulatory approach?
- Q3** What is your view on the following areas in the future contractual arrangement (if any) between the Government and the power companies -
(a) duration;
(b) permitted rate of return;
(c) tariff approval mechanism;
(d) fuel cost arrangement; and
(e) incentive and penalty scheme relating to the performance of the power companies?
What other improvements would you suggest?
- Q4** Should Hong Kong further promote renewable energy despite its higher tariff implications; and if so, about how much (in terms of percentage of your electricity bill) are you prepared to pay?
- Q5** What specific requirements would you suggest to be set out in the future contractual arrangement (if any) between the Government and the power companies to encourage the promotion of demand side management and renewable energy by the power companies?
- Q6** Do you have any other comments and suggestions?

Share your views on or before **30 June 2015** by mail, e-mail or facsimile to the following addresses –

Electricity Reviews Division
Environment Bureau
15/F, East Wing,
Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

E: emr@enb.gov.hk
F: 2147 5834
W: www.enb.gov.hk



Response Form
Public Consultation on the Future Development of
the Electricity Market

Please send this response form to us on or before **30 June 2015** by one of these means:

mail: Electricity Reviews Division, Environment Bureau, 15/F, East Wing,
Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong
e-mail: emr@enb.gov.hk
fax: 2147 5834

Part 1 (See Notes)

This is a corporate response (representing the views of a group or an organisation) or
 individual response (representing the views of an individual)

by

_____ (name of person or organisation)

at

_____ (telephone)

and

_____ (e-mail)

Part 2

Consultation Questions

Question 1 How important is choice to you in respect of the supply of electricity? What objectives do you consider should be achieved through introducing competition to the electricity market?

Question 2 To what extent do you think the current contractual arrangement by SCAs has allowed us to achieve the energy policy objectives of safety, reliability, affordability and environmental protection, and what problems do you see with this regulatory approach?

Question 3 What is your view on the following areas in the future contractual arrangement (if any) between the Government and the power companies?

(a) duration

(b) permitted rate of return

(c) tariff approval mechanism

(d) fuel cost arrangement

(e) incentive and penalty scheme relating to the performance of the power companies

What other improvements would you suggest?

Question 4 Should Hong Kong further promote renewable energy despite the higher tariff implications; and if so, about how much (in terms of percentage of your electricity bill) are you prepared to pay?

Question 5 What specific requirements would you suggest to be set out in the future contractual arrangement (if any) between the Government and the power companies to encourage the promotion of demand side management and renewable energy by the power companies?

Question 6 Do you have any other comments and suggestions?

Notes :

1. It is optional for you to provide your personal information in Part 1 of this response form.
2. The names and views of individuals and organisations which put forth submissions in response to this Consultation Document (“senders”) may be published for public viewing after conclusion of the public consultation exercise. The Government may, either in discussion with others (whether privately or publicly), or in any subsequent report, attribute comments submitted in response to this Consultation Document.
3. We will respect the wishes of senders to remain anonymous and / or keep the views confidential in part or in whole. If the senders request anonymity in the submissions, their names will be removed when publishing their views. If the senders request confidentiality of their views, their submissions will not be published.
4. If the senders do not request anonymity or confidentiality in the submissions, it will be assumed that the senders can be named and the views can be published in their entirety.
5. To safeguard senders’ data privacy, we will remove senders’ relevant data (if provided), such as telephone numbers, email addresses, residential / return addresses, identity card numbers, facsimile numbers and signatures when publishing their submissions.
6. Provision of any personal data in this response form is voluntary. Any personal data provided may be transferred to the relevant Government bureaux and departments for purposes directly related to this consultation exercise. The Government bureaux and departments receiving the data are bound by such purposes in their subsequent use of such data. Any sender providing personal data to us in the submission will have the rights of access and correction with respect to such personal data. Requests for data access and correction should be made in writing to:

Address: Electricity Reviews Division
 Environment Bureau
 15/F, East Wing, Central Government Offices
 2 Tim Mei Avenue, Tamar, Hong Kong

Fax : 2147 5834



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