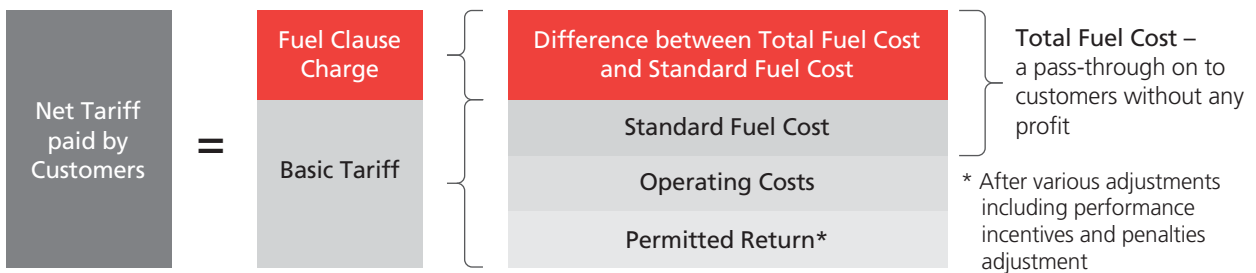


### 3. Tariff Information

#### 3.1. Tariff Components

The Net Tariff charged to customers is mainly made up of Basic Tariff and Fuel Clause Charge (Figure 1).

Figure 1 – Tariff Components



#### Basic Tariff

Basic Tariff is calculated by dividing the annual forecast total of the standard cost of fuels, operating costs and the Permitted Return by the forecast volume of electricity sales.

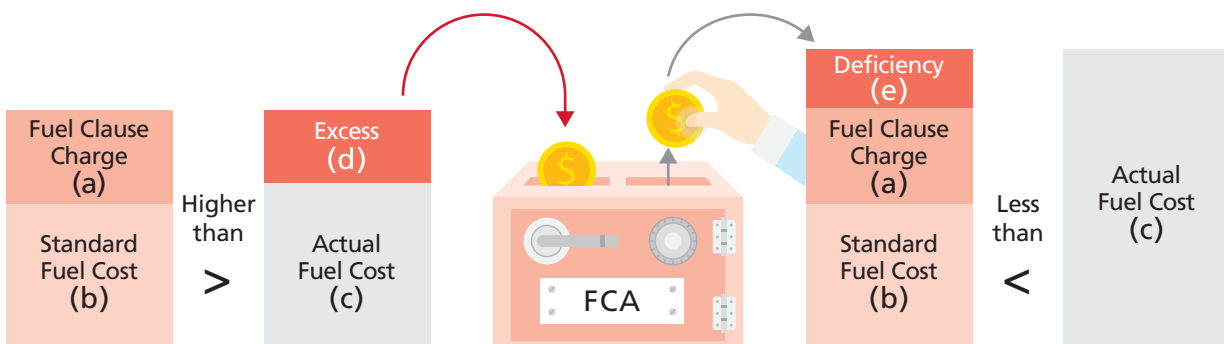
#### Fuel Clause Charge

Fuel cost is passed through to customers without any profits incurred as stipulated by the SCA.

A Fuel Clause Recovery Account (“FCA”) is established under the SCA to capture the difference between actual cost of fuels and standard cost of fuels, which is to be recovered from or returned to customers by means of Fuel Clause Charge (“FCC”) or Rebate. Standard cost of fuels is recovered from the customers through the Basic Tariff (Figure 2).

Figure 2 – Fuel Clause Recovery Account (FCA)

As illustrated below, the FCA is used to capture the differences between the Fuel Clause Charge (a) and Standard Fuel Cost (b) and the actual fuel cost (c) incurred. If (a) + (b) is higher than the actual fuel cost (c), the amount of such excess (d) is transferred to the FCA. Conversely, when there is a deficiency (e), the amount is transferred from the FCA.



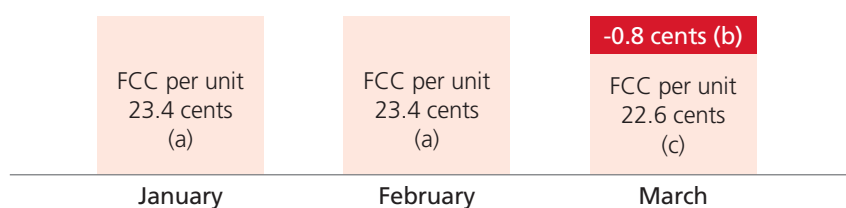
Under the SCA, HK Electric's fuel procurement policy and procedures are monitored by the Government through the annual Auditing Review. Our long-term fuel contracts are also scrutinised by the Government to ensure that their terms and conditions are in line with international fuel market trends and practices.

Fuel prices however are subject to fluctuations caused by changes in market supply and demand attributable to a host of factors including geopolitical forces and economic climate which are beyond the control of the power companies. Starting 2019, to reflect the changes in fuel costs more promptly, the FCC is adjusted monthly based on the previous three-month average actual cost of fuels and in according to the more frequent FCC adjustment mechanism (Figure 3).

### Figure 3 – More Frequent Fuel Clause Charge (FCC) Adjustment Mechanism

To allow time to collect and calculate the actual fuel costs, the January and February Fuel Clause Charges ("FCC") are fixed at the annual FCC rate as determined in the annual Tariff Review ("TR"). The FCC adjustment will start from March each year.

Take 2019 as an example. The January and February FCC follows the rate determined in the TR which is 23.4 cents per unit of electricity (a). The March FCC is adjusted by the difference between the previous three-month average Fuel Clause Chargeable per unit of electricity (calculated at 23.8 cents per unit) and that projected in the TR (24.6 cents per unit), which results in a reduction of 0.8 cent per unit (b). Therefore, the March FCC is 22.6 cents per unit (c). The same formula applies to subsequent months.



Note: Fuel Clause Chargeable represents the difference between actual cost of fuels and standard cost of fuels net of interest on Fuel Clause Recovery Account balance.

## 3.2. Tariff Approval

Under the SCA, HK Electric has to submit a Development Plan ("DP"), which sets out the projected basic tariff rate and sales as well as required operating and capital expenditures for the period covered by the DP, to the Government for approval by the Executive Council.

The actual tariff is set every year through the Tariff Review ("TR"). HK Electric will submit a proposal to the Government taking into account factors including the current and projected electricity sales, operating costs and fuel costs. If the proposed Basic Tariff Rate exceeds the projected Basic Tariff Rate approved in the DP for the year by more than 5%, further approval by the Executive Council is required. The outcome of the TR will be announced at the Economic Development Panel of the Legislative Council ("LegCo") meeting with presentations from the power companies. Relevant information is available on the [LegCo website](#).



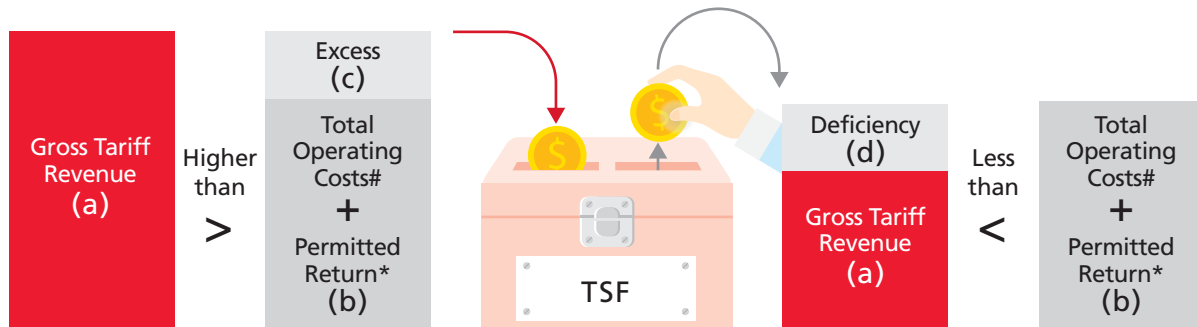
### 3.3. Tariff Stabilisation Fund

The SCA requires HK Electric to maintain a Tariff Stabilisation Fund ("TSF"), the main purpose of which is to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. Every year, where the Gross Tariff Revenue exceeds the aggregate of the Total Operating Costs, Permitted Return (after various adjustments) and Scheme of Control taxation charges, the amount of such excess is transferred to the TSF for future use when required.

On the other hand, if there is a deficiency, the amount of such deficiency is transferred from the TSF to the statement of profit and loss for that year, but the amount transferred may not exceed the balance of the TSF, meaning that the TSF should not go into deficit (Figure 4).

Figure 4 – Tariff Stabilisation Fund (TSF)

As illustrated below, each year, where the Gross Tariff Revenue (a) exceeds the aggregate of the Total Operating Costs and Permitted Return (b), the amount of such excess (c) is transferred to the TSF. And if there is a deficiency (d), the amount is transferred from the TSF to the statement of profit and loss for that year.



# Includes fuel cost, operating costs, etc.; plus the Scheme of Control taxation charges

\* After various adjustments including performance incentives and penalties adjustment

### 3.4. Types of Tariff

HK Electric offers three types of tariffs for different categories of customers, namely [Residential Tariff](#), [Non-Residential Tariff](#) and [Maximum Demand Tariff](#). There are seven consumption blocks for Residential Tariff and four for Non-Residential Tariff. Progressive block tariff structures have been in place for both tariff types.

### 3.5. 2019 Tariff Adjustment

Under the current SCA, the pressure on tariff is eased by a reduction in the permitted rate of return to 8%. In 2019, the basic tariff is reduced to 101.3 cents per unit of electricity, 7.8 cents lower than the 109.1 cents in 2018. However, following two years of substantial special rebates in 2017 and 2018, there is no room for HK Electric to provide the same in 2019. With the special rebates reduced, there is a rebound in 2019 net tariff by 7.6 cents per unit of electricity, from 112.5 cents in 2018 to 120.1 cents in 2019,

representing an increase of 6.8%. If the impact of the rebates were taken out, the net tariff for 2019 would have been lower than that of 2018 by 5.9%.

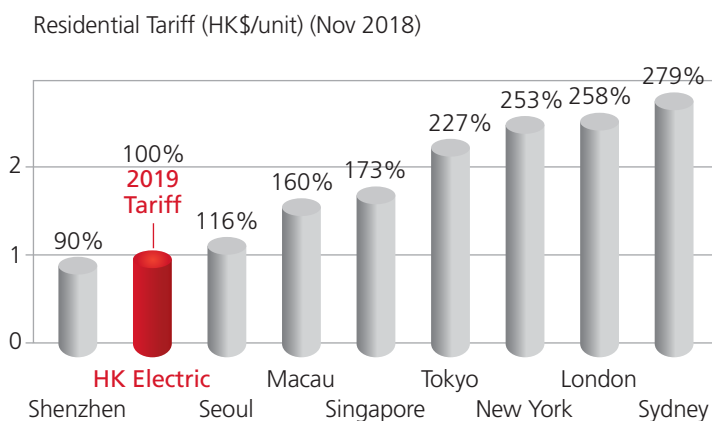
2019 Residential Tariff		Tariff Adjustment for 2019			
Consumption (In blocks)	Basic Charge (cents/unit)	Tariff Components	2018 (cents/unit)	2019 (cents/unit)	Adjustment (cents/unit)
For each of the first 150 units	59.7	Basic Tariff	109.1	101.3	-7.8
For each of the next 150 units (151 - 300)	73.6	Fuel Clause Charge*	23.4	23.4	---
200 units (301 - 500)	87.5	Net Tariff Payable	132.5	124.7	-7.8 (-5.9%)
200 units (501 - 700)	111.1	Special Rent & Rates Rebate	- 4.0	- 2.3	+1.7
300 units (701 - 1,000)	125.0	Special Fuel Rebate	- 16.0	- 2.3	+13.7
500 units (1,001 - 1,500)	138.9	Net Tariff Payable (Including Rebates)	112.5	120.1	+7.6 (+6.8%)
From 1,501 units and above	152.8				

### 3.6. Tariff Comparison with Cities outside Hong Kong

Dedicated to providing our customers with long-term, stable and reasonable tariffs, HK Electric's tariff for typical households is lower than many major cities in the world including Tokyo, New York, London, Seoul and Singapore (Figure 5).

**\*Fuel Clause Charge** - Starting 2019, the FCC will be adjusted on a monthly basis to reflect changes in the cost of fuels consumed for generation of electricity in a timely manner.

Figure 5 – Comparison of Residential Tariffs



Remark:

Comparison based on monthly residential customer consumption of 275 units; overseas tariffs and exchange rates are as at Nov 2018.

Sources:

1. Shenzhen: Shenzhen Power Supply Bureau
2. HK Electric: The Hongkong Electric Co., Ltd.
3. Seoul: Korea Electric Power Corporation
4. Macau: Companhia de Electricidade de Macau
5. Singapore: SP Group
6. Tokyo: Tokyo Electric Power Co., Inc.
7. New York: Consolidated Edison, Inc.
8. London: EDF Energy
9. Sydney: EnergyAustralia

### 3.7. Household Expenditure on Electricity

According to the household expenditure survey carried out by the Census and Statistics Department in 2014/15, households in Hong Kong spend on average only 1.6% of their expenditure on electricity supply which is much lower than other expenses such as information and communications services (2.3%) and transportation (7.5%).