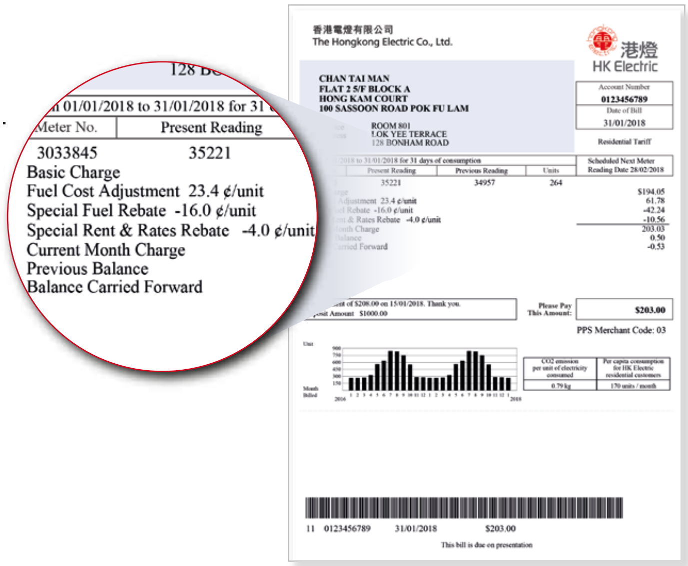
3. Tariff Information

3.1. Tariff Components



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

Basic Tariff

Basic Tariff is calculated by dividing the annual forecast total of the "standard fuel cost", "operating costs" and the "permitted return" by the forecast volume of electricity sales. It is expressed in cents per unit of electricity (1 unit of electricity = 1 kilowatt hour, kWh).

Fuel Cost Adjustment

Fuel cost is borne by customers as stipulated by the SCA and has no impact on HK Electric's earnings.

A Fuel Clause Recovery Account ("FCA") is established under the SCA to capture the difference between the actual fuel cost and the standard fuel cost, which is to be recovered from or returned to customers by means of a Fuel Cost Adjustment each year (Figure 2).

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 power companies. Through adjusting the FCA balance, the impact of fuel price fluctuations on tariffs can be effectively mitigated.

3.2. Tariff Approval

Under the SCA, HK Electric has to submit a Development Plan ("DP"), which sets out the projected capital expenditure and Basic Tariff Rate for each year covered by the DP, for approval by the Executive Council at least every five years.

The actual tariff is set every year through the Tariff Review ("TR") which usually commences in October. HK Electric will submit a proposal to Government taking into account factors including the current and

Figure 1 – Tariff Components

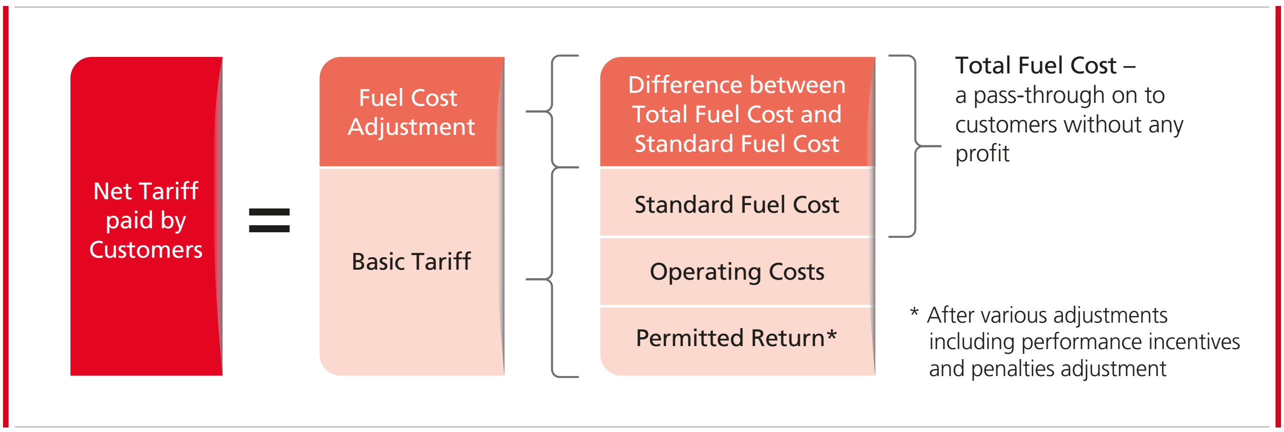
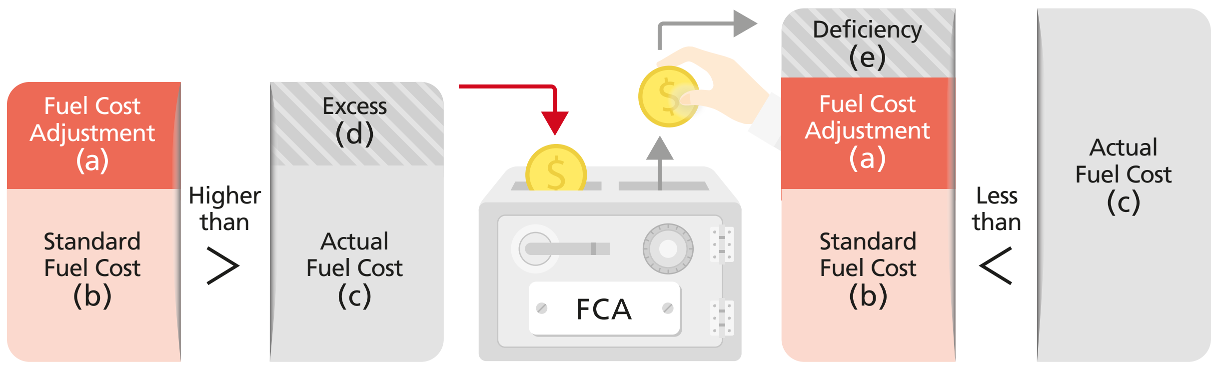


Figure 2 – Fuel Clause Recovery Account (FCA)

As illustrated below, the FCA is used to capture the differences between the Fuel Cost Adjustment (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.



projected electricity sales, operating costs and fuel costs. The outcome of the TR will be announced at the Economic Development Panel of the Legislative Council ("LegCo") at its December meeting with presentations from power companies. Relevant information is available on the LegCo website.

If during the TR, the proposed Basic Tariff Rate exceeds the projected Basic Tariff Rate approved in the DP for the year by more than 5%, further approval from the Executive Council is required.

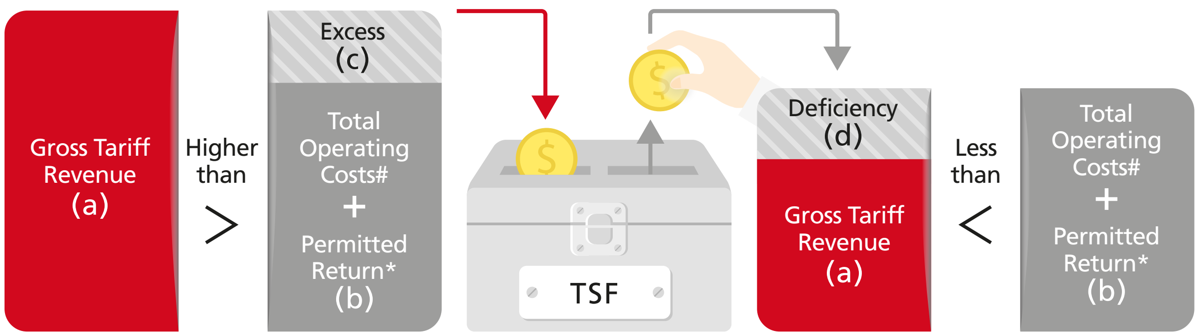
3.3. Tariff Stabilisation Fund

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 3).

Figure 3 – 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

Currently 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 where a progressively higher unit rate will be charged for higher consumption to help encourage the efficient use of electricity.

3.5. 2018 Tariff Adjustment

In 2018, HK Electric continues to offer two special rebates – Special Rent & Rates Rebate and Special Fuel Rebate to more than 570,000 customers. Together with other annual adjustments, there is a rebound in the Net Tariff from 110.4 cents to 112.5 cents per unit of electricity in 2018, representing an adjustment of 1.9%.

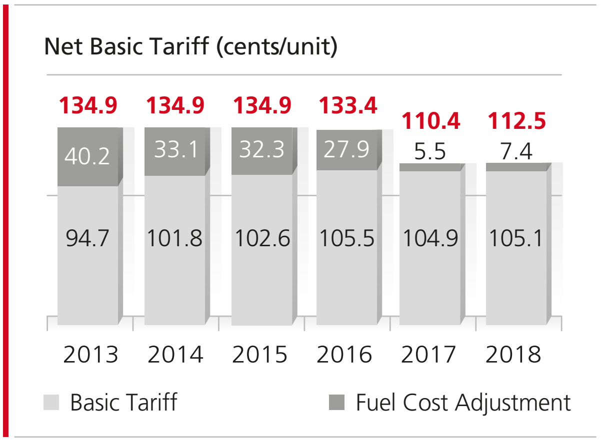
Tariff Adjustment for 2018

Tariff (cents/unit)	2017	2018	Adjustment
Basic Tariff	108.9	109.1	+ 0.2
Special Rent & Rates Rebate	- 4.0	- 4.0	0
Net Basic Tariff	**104.9**	**105.1**	**+ 0.2 (+ 0.19%)**
Fuel Cost Adjustment	23.4	23.4	0
Special Fuel Rebate	-17.9	-16.0	+1.9
Net Tariff	**110.4**	**112.5**	**+ 2.1 (+1.9%)**

3.6. Honour our Pledge to Freeze Tariff for 5 Years

HK Electric is committed to providing customers with stable and reasonable tariffs in the long term. We announced in end 2013 the freezing of our Net Tariff for five years from 2014 to 2018, an unprecedented move worldwide.

2013 - 2018 Tariff Adjustments



HK Electric has frozen its tariff for two years in 2014 and 2015, followed by successive tariff reduction in 2016 and 2017. In 2018, despite a tariff rebound following a smaller Special Fuel Rebate, the Net Tariff is still 16.6% lower than the 2013 level, while the aggregated inflation is 11.8% within the same period. This has demonstrated that HK Electric has honoured its pledge to freeze tariff between 2014 and 2018.

2018 Residential Tariff

Consumption (In blocks)	Basic Charge (cents/unit)	Fuel Cost Adjustment (cents/unit)	Special Fuel Rebate (cents/unit)	Special Rent & Rates Rebate (cents/unit)	Net Rate (cents/unit)
For each of the first 150 units	67.5	23.4	-16.0	-4.0	70.9
For each of the next 150 units (151 - 300)	81.4	23.4	-16.0	-4.0	84.8
200 units (301 - 500)	95.3	23.4	-16.0	-4.0	98.7
200 units (501 - 700)	118.9	23.4	-16.0	-4.0	122.3
300 units (701 - 1,000)	132.8	23.4	-16.0	-4.0	136.2
500 units (1,001 - 1,500)	146.7	23.4	-16.0	-4.0	150.1
From 1,501 units and above	160.6	23.4	-16.0	-4.0	164.0

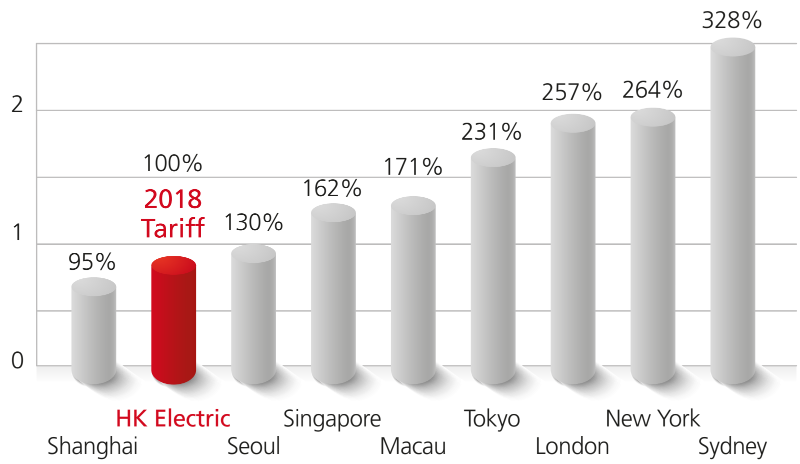
3.7. Tariff Comparison with Cities outside Hong Kong

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 including Seoul, Singapore, London, New York and Sydney (Figure 4).

3.8. Household Expenditure on Electricity

HK Electric's tariffs are affordable to our customers. Households in Hong Kong spend on average only 1.6% of their expenditure on electricity supply according to a household expenditure survey carried out by the Census and Statistics Department in 2014/15 (Figure 5), much lower than other expenses such as telecommunication and transportation.

Figure 4 – Comparison of Residential Tariffs



Remark:
Comparison based on monthly residential customer consumption of 275 units; overseas tariffs and exchange rates are as at Nov 2017

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

Figure 5 – Electricity Expenses Only Account for 1.6% Household Expenditure