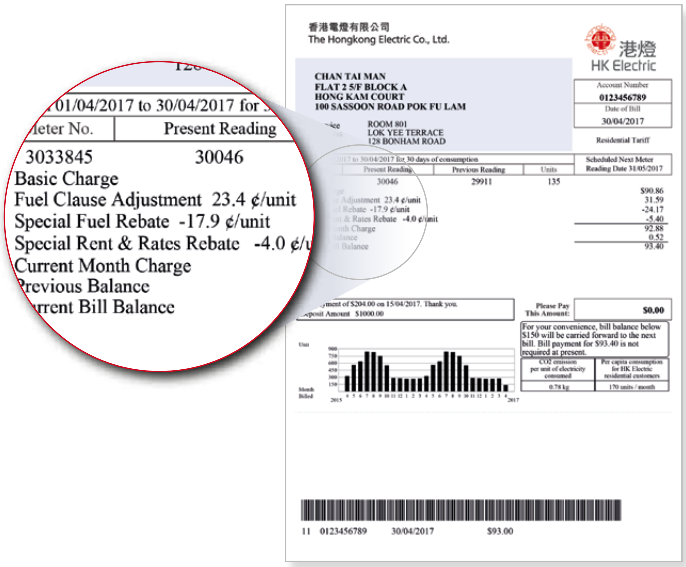
3. Tariff Information

3.1. Tariff Components

The Net Tariff charged to customers is made up of Basic Tariff and Fuel Clause Charge/Rebate (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 Clause Charge/Rebate

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 differences between the "forecast fuel cost" and the "actual fuel cost" incurred. The "forecast fuel cost" is estimated based on the Fuel Clause Charge/Rebate, Standard Fuel Cost and the forecast electricity sales. Through the FCA, the difference between the "standard fuel cost" and the "actual fuel cost" is recovered from or returned to customers by means of a Fuel Clause Charge or Rebate 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 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 Basic Tariff Rate for each of the five years covered by the DP, for approval by the Executive Council.

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

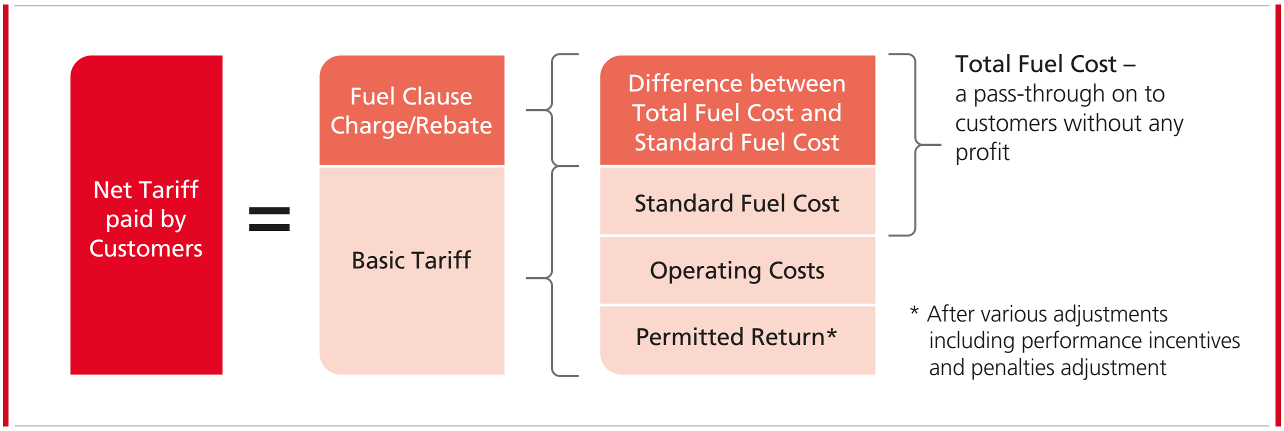
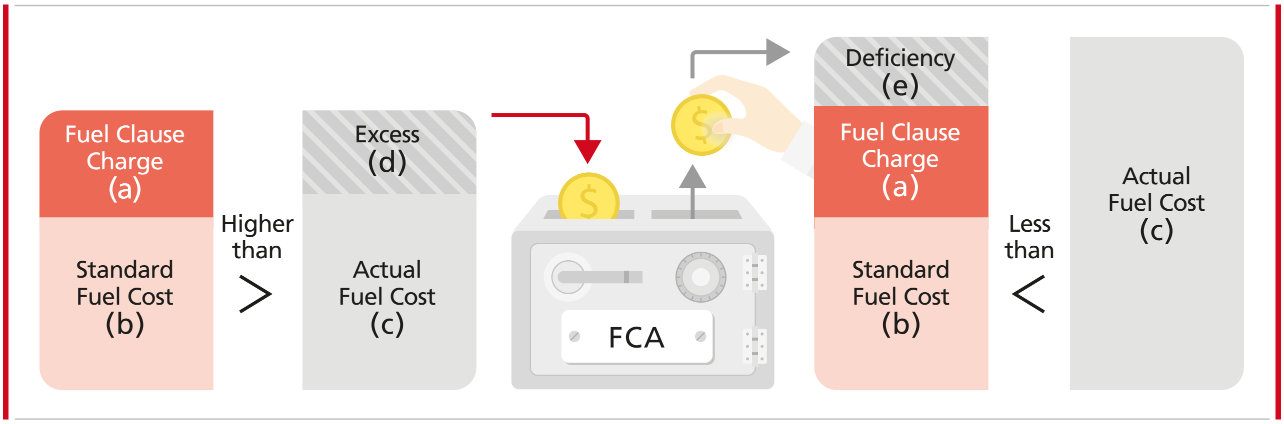


Figure 2 – Fuel Clause Recovery Account (FCA)

As illustrated below, the FCA is used to capture the differences between the "forecast fuel cost" which is Fuel Clause Charge (a) and Standard Fuel Cost (b) and the "actual fuel cost" (c) incurred. If the "forecast fuel cost" (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.

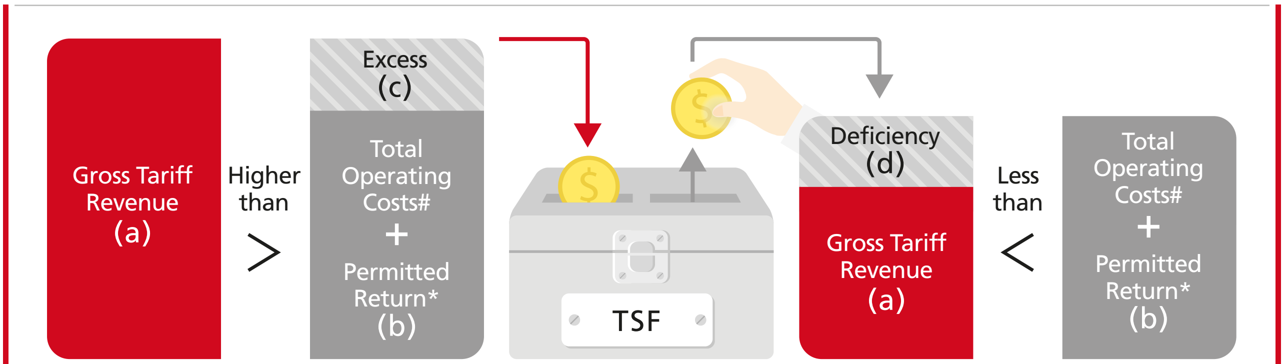
3.3. Tariff Stabilisation Fund

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, Commercial, Industrial and Miscellaneous Tariff and Maximum Demand Tariff.

We offer 7 consumption blocks for Residential Tariff and 4 for Commercial, Industrial and Miscellaneous 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. Tariff Reduction for 2017

From 1 January 2017, HK Electric has been offering two special rebates – Special Rent & Rates Rebate and Special Fuel Rebate to more than 570,000 customers. Together with other annual adjustments, the Net

Tariff Adjustment for 2017

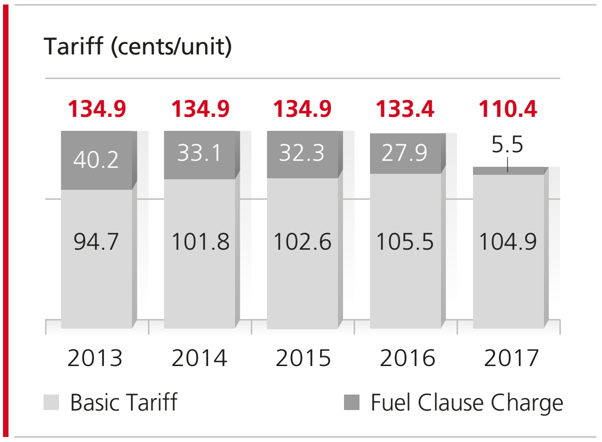
Tariff (cents/unit)	2016	2017	Adjustment
Basic Tariff	105.5	108.9	+ 3.4
Special Rent & Rates Rebate	-	- 4.0	- 4.0
Net Basic Tariff	**105.5**	**104.9**	**- 0.6 (- 0.6%)**
Fuel Clause Charge	27.9	23.4	- 4.5
Special Fuel Rebate	-	-17.9	-17.9
Net Tariff	**133.4**	**110.4**	**- 23 (- 17.2%)**

Tariff for 2017 has been reduced by 23 cents per unit of electricity from 133.4 cents in 2016 to 110.4 cents in 2017, equivalent to a 17.2% reduction.

3.6. 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 5 years from 2014 to 2018, an unprecedented move worldwide.

2013 - 2017 Tariff Adjustments



In fact, HK Electric has frozen its tariff for 2 years in 2014 and 2015, followed by successive tariff reduction in 2016 and 2017. Our performance in the last 4 years has surpassed the pledge of a 5-year tariff freeze. The Net Tariff for 2017 is about 8% lower than the 119.9 cents in 2009 when the current Scheme of Control Agreement came into effect, far lower than the inflation rate of about 29% over the same period.

2017 Residential Tariff

Consumption (In blocks)	Basic Charge (cents/unit)	Fuel Clause Charge (cents/unit)	Special Fuel Rebate (cents/unit)	Special Rent & Rates Rebate (cents/unit)	Net Rate (cents/unit)
For each of the first 150 units	67.3	23.4	-17.9	-4.0	68.8
For each of the next 150 units (151 - 300)	81.2	23.4	-17.9	-4.0	82.7
200 units (301 - 500)	95.1	23.4	-17.9	-4.0	96.6
200 units (501 - 700)	118.7	23.4	-17.9	-4.0	120.2
300 units (701 - 1,000)	132.6	23.4	-17.9	-4.0	134.1
500 units (1,001 - 1,500)	146.5	23.4	-17.9	-4.0	148.0
From 1,501 units and above	160.4	23.4	-17.9	-4.0	161.9

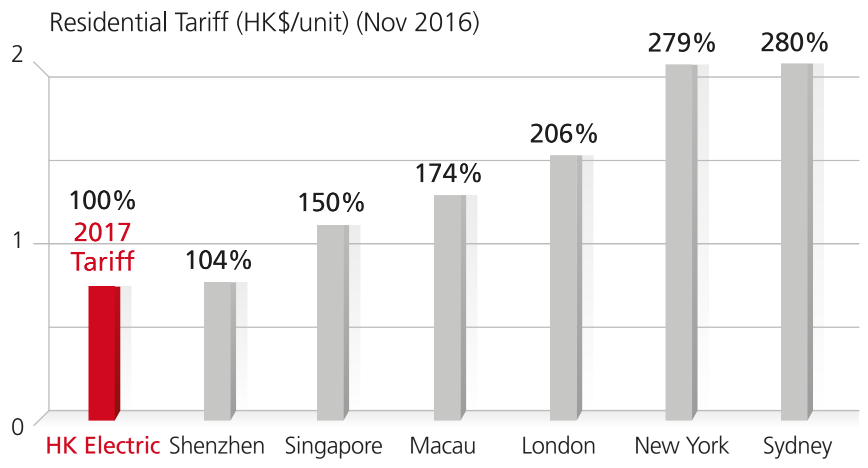
3.7. Tariff Comparison with Cities outside Hong Kong

Dedicated to providing our customers with long-term, stable and reasonable tariffs, HK Electric's tariff for typical households is the lowest among the world's major cities including Singapore, London, New York and Sydney where the tariffs are about 50% to 180% higher than HK Electric's (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



Remarks:
(1) Comparison based on monthly residential customer consumption of 275 units (3,300 units p.a.), about 40% of HK Electric's residential customers; overseas tariffs and exchange rates are as at Nov 2016
(2) HK Electric's tariff includes the Special Rent & Rates Rebate and the Special Fuel Rebate

Sources:
1. HK Electric: The Hongkong Electric Company, Ltd.
2. Shenzhen: Shenzhen Power Supply Bureau
3. Singapore: SP Services Ltd.
4. Macau: Companhia de Electricidade de Macau
5. London: EDF Energy
6. New York: Consolidated Edison, Inc.
7. Sydney: EnergyAustralia

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