

19 December 2014

Mr Poon Wai Yin Paul
Managing Director
CLP Power Hong Kong Limited
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Hung Hom, Kowloon
Hong Kong

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2013 SCA Review – amendments to the SCA

Dear Mr Poon,

This letter sets out the agreement reached between the Government of the Hong Kong Special Administrative Region (“Government”), CLP Power Hong Kong Limited (“CLP Power”), and Castle Peak Power Company Limited (“CAPCO”) as a result of the review conducted during the Year ending 31 December 2013 pursuant to clause 7(4) of the Scheme of Control Agreement (“SCA”) dated 07 January 2008 (as amended by a supplemental agreement dated 23 April 2014) amongst the Government, CLP Power, and CAPCO.

1. Definitions and construction

- 1.1 The terms defined in the SCA shall have the same meanings herein unless the context otherwise requires.
- 1.2 The SCA and this letter shall be read and construed as one single document. Save as expressly amended by this letter, all terms and conditions of the SCA shall remain in full force and effect.
- 1.3 Notwithstanding any provision elsewhere in the SCA to the contrary, if there is any inconsistency or discrepancy between this letter and the SCA, the content of this letter shall prevail.

2. Emission Performance Linkage Mechanism

- 2.1 The whole of Schedule 4 to the SCA shall be deleted and replaced with the words "Not Used".
- 2.2 Reference to "clauses 4(3)(e) to (h)" on the second last line of clause 4(1) of the SCA shall be replaced with "clauses 4(3)(e), (g) and (h)".
- 2.3 Clause 4(3)(f) of the SCA shall be deleted and replaced with the words, "not used".
- 2.4 Reference to "clauses 4(3)(f), (g) and (h)" on the second last line of clause 5(2)(b) of the SCA shall be replaced with "clauses 4(3)(g) and (h)".
- 2.5 Reference to "clauses 4(3)(f) to (h)" in item (30) of Schedule 1 to the SCA shall be replaced with "clauses 4(3)(g) and (h)".
- 2.6 Reference to "Schedules 4, 5 and 6 of this Agreement" on the last line in paragraph (3)(j) of Section A of Schedule 3 of the SCA shall be changed to "Schedules 5 and 6 of this Agreement".
- 2.7 Reference to "Schedules 4, 5 and 6 of this Agreement" on the first line in paragraph (1)(g) of Section D of Schedule 3 of the SCA shall be changed to "Schedules 5 and 6 of this Agreement".

3. Customer Performance Incentives /Penalties

3.1 The third column titled “Target” in the table set out in paragraph 2 of Schedule 5 to the SCA shall be deleted and replaced with the following column of the same heading. The first, second and fourth columns of the same shall remain unchanged.

| Customer Performance Category | Performance Index | Target | Incentive Adjustment |
|--------------------------------------|--|--|-----------------------------|
| Supply Reliability | Average Service Availability Index (ASAI) | ASAI is greater than or equal to 99.995% | + 0.01% |
| | | ASAI is less than 99.995% but more than 99.99% | 0% |
| | | ASAI is equal to or less than 99.99% | - 0.01% |
| Operational Efficiency | Connection & Supply Performance Index (CSPI) | CSPI is equal to 100% | + 0.01% |
| | | CSPI is less than 100% but more than 99.98% | 0% |
| | | CSPI is equal to or less than 99.98% | - 0.01% |
| Customer Services | Appointment Punctuality Index (API) | API is greater than or equal to 99.7% | + 0.01% |
| | | API is less than 99.7% but more than 98% | 0% |
| | | API is equal to or less than 98% | - 0.01% |

4. Energy Efficiency

4.1 Paragraph 5 of Schedule 6 to the SCA shall be deleted and replaced with the following:

“5. Energy Saving Loan Fund

5.1 A loan fund over a period commencing from 1 January 2009 and ending on the extended expiry date of 30 September 2018 (“Loan Fund Period”) shall be established by the Companies to provide loans to non-Government customers of the Companies (“Borrowers”) to implement energy-saving initiatives identified in the energy audits under the Energy Audit Programme (“Energy Saving Loan Fund”). In respect of each year of the Loan Fund Period and the last remaining period commencing from 1 January 2018 and ending on 30 September 2018, the Companies shall make available HK\$25 million in terms of principal amount to be advanced under the Energy Saving Loan Fund to the Borrowers for the aforesaid purposes. The total principal amount to be made available in the Loan Fund Period from 1 January 2014 to 30 September 2018 shall not exceed HK\$ 125 million at any time.

5.2 During the Loan Fund Period, the Companies may arrange banks as the lender to extend commercial loans under the Energy Saving Loan Fund to Borrowers in lieu of making the funds available themselves. The Companies shall reimburse Borrowers for interest accruing on such loans and paid to banks. Such reimbursements shall be treated as Total Operating Costs whilst the SCA continues.

5.3 The Government and the Companies shall at least 12 months before 30 September 2018 institute specific discussions which may include recovery of amounts, losses and/or expenditure incurred or to be incurred by the Companies in connection with the operation and administration of the Energy Saving Loan Fund after 30 September 2018 including (a) all amounts which may be reimbursed by the Companies after 30 September 2018 to Borrowers for their interest payments as mentioned in paragraph 5.2 above; (b) if the Companies take up the lender role to advance loans to Borrowers, any bad debts arising after 30 September 2018 representing the un-repaid principal amounts of the loans advanced by the Companies to the

Borrowers during the Loan Fund Period; and (c) administrative and legal costs incurred by the Companies after 30 September 2018 in relation to the general administration of the Energy Saving Loan Fund (to the extent necessary to discharge their obligations to reimburse interest under paragraph 5.2 above) and in the recovery and enforcement of the loans under the Energy Saving Loan Fund advanced by the Companies as lender during the Loan Fund Period.”

4.2 A new paragraph 5A shall be inserted immediately after paragraph 5 of Schedule 6 to the SCA as follows:

“5A. Energy Efficiency Fund

5A.1 No later than 30 June 2014, a building energy efficiency fund (“Energy Efficiency Fund”) shall be established. The Energy Efficiency Fund shall be funded by the Companies (in the manner specified in paragraph 5A.2 below) to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations by incorporated owners for communal use in non-commercial buildings, with priority to be given to single residential blocks.

5A.2 The Companies shall make a non-refundable contribution to the Energy Efficiency Fund (each a “EEF Contribution”) of an amount equal to the sum of the Energy Saving Incentive Factor (if positive) and the Energy Audit Incentive Factor (if positive) to be determined as specified in Schedule 6 multiplied by the total value of the Companies’ Average Net Fixed Assets (collectively, “Energy Efficiency Incentive Amount”) that may be added to the Permitted Return in respect of each Year falling within the period from 1 January 2014 to 30 September 2018 pursuant to clause 4(1) and clause 4(3)(h) of the SCA. To the extent that there is no Energy Efficiency Incentive Amount to be added to the Permitted Return in respect of a Year, the Companies shall have no obligation to make an EEF Contribution in respect of that Year.

5A.3 The Companies shall, no later than 1 month after the Government’s confirmation of the amount of the Energy Efficiency Incentive Amount in respect of a Year during the period from 1 January 2014 to 30 September 2018, make the EEF Contribution (if any) to the Energy Efficiency Fund.

- 5A.4 EEF Contributions to the Energy Efficiency Fund shall not have any impact on tariffs. Without prejudice to the generality of the foregoing, the Companies shall not treat the EEF Contributions as Total Operating Costs.
- 5A.5 No amount granted to an applicant under the Energy Efficiency Fund in respect of the cost of improvement works shall exceed 50% of the cost of such works subject further to a cap to be determined by the Companies.
- 5A.6 The Energy Efficiency Fund shall be maintained and administered by the Companies from the time of its establishment as specified in paragraph 5A.1 to 30 September 2018. Whilst administering the Energy Efficiency Fund, the Companies shall ensure that the costs incurred in the administration of the fund shall be kept to a minimum. Subject to paragraph 5A.4 above, such administration costs shall be treated as the Total Operating Costs during the Term. The treatment of any available balance in the Energy Efficiency Fund after 30 September 2018 shall be further discussed and agreed between the Government and the Companies subject to the requirement that such balance must not be refunded to the Companies.”

5. Treatment of Insurance Compensation on Damaged Assets

- 5.1 The words “or when compensation is received from insurers in respect of damage to or loss of a Fixed Asset” shall be deleted from paragraph (2) of Section C of Schedule 2 to the SCA.
- 5.2 The following new paragraph (3) shall be inserted immediately after paragraph (2) of Section C of Schedule 2 to the SCA:
- “(3) When compensation is received from insurers in respect of damage to or loss of a Fixed Asset in a Year, all amount of such compensation shall be deducted from the Total Operating Costs for the Year in which the compensation payment is received.”

6. Information Transparency

6.1 The following sentence shall be added after the first sentence in paragraph (6) of Section A of Schedule 3 to the SCA:

“Without prejudice to the Companies’ aforementioned obligation, the scope and presentation of the disclosure to the Government shall be mutually agreed between the Government and the Companies when a Development Plan Review is conducted jointly by the Government and the Companies.”

6.2 Paragraph (4) of Section B of Schedule 3 to the SCA shall be deleted and replaced with the following:

“(4) The Companies, as part of their continuing effort to increase transparency, will make available to the public as necessary the supporting information to explain the tariff adjustment following the completion of each Tariff Review. The content, scope and presentation of such disclosure to the public shall be mutually agreed between Government and the Companies prior to each disclosure.”

6.3 The following sentence shall be added at the end of paragraph (2) of Section D of Schedule 3 to the SCA:

“Without prejudice to the Companies’ aforementioned obligation, the scope and presentation of the disclosure to the Government shall be mutually agreed between the Government and the Companies when an Auditing Review is conducted jointly by the Government and the Companies.”

7. Upper Limit of the Tariff Stabilisation Fund

7.1 Reference to “8%” in the last sentence of paragraph (1)(a) of Section B of Schedule 3 to the SCA shall be replaced with “5%”.

8. Rate Reduction Reserve

8.1 Clause 3(4) of the SCA shall be deleted and replaced with the following:

“(4) CLP Power shall adjust tariffs through rebates from the Tariff Stabilisation

Fund in accordance with clause 5(3) and paragraph 1(a) of Section B of Schedule 3.”

8.2 Clause 5(4) of the SCA shall be deleted in its entirety and replaced with the following:

“(4) A Rate Reduction Reserve shall be maintained in the accounts of CLP Power. In each Year, a charge equal to the Rate Reduction Reserve Interest Rate times the average of the opening and closing balances of the Tariff Stabilisation Fund for that Year, shall be credited to the Rate Reduction Reserve. CLP Power shall transfer the balance of the Rate Reduction Reserve as at the end of each Year to the Tariff Stabilisation Fund within one month after the end of that Year except that in relation to the balance as at the end of the last Year of the Term, the balance shall be dealt with in accordance with clause 5(6).”

9. Asset Depreciation Periods

9.1 Sub-paragraphs (2)(a), (b) and (c) of Section B of Schedule 2 to the SCA shall be deleted and replaced with the new sub-paragraphs as follows:

“(2) (a) Fixed Assets commissioned before 1 January 2014

In respect of a Fixed Asset whose Commissioning took place before 1 January 2014, its net book value as at 31 December 2013 will be written off uniformly over the remainder of the useful life of such Fixed Asset. The remainder of the useful life of such Fixed Asset shall be its useful life as set out in sub-paragraph (2)(c) beginning on the first day of the month of its Commissioning, less the period which has expired up to 31 December 2013 since the first day of the month of its Commissioning.

(b) Fixed Assets commissioned on or after 1 January 2014

In respect of a Fixed Asset whose Commissioning takes place on or after 1 January 2014, its cost will be written off uniformly over the useful life of such Fixed Asset as set out in sub-paragraph (2)(c), beginning on the first day of the month of its Commissioning.

| (c) Type of Asset | Useful Life |
|---|--|
| Land | : Unexpired terms of the leases |
| Cable tunnels | : 100 years |
| Buildings and civil structures at power stations | : 35 years |
| Ash lagoon | : 35 years |
| Other buildings and civil structures | : 60 years |
| Generating plant (including natural gas pipeline) | : 25 years |
| Overhead lines (33 kV and above) | : 60 years |
| Overhead lines (below 33 kV) | : 45 years |
| Cables | : 60 years |
| Switchgear and transformers | : 50 years |
| Substation miscellaneous | : 25 years |
| Meters | : 15 years |
| System control equipment, furniture, tools, communication and office equipment | : 10 years |
| Computers and office automation equipment other than those forming an integral part of the generating plant | : 5 years |
| Motor vehicles and marine craft | : 5 years |
| Refurbished or improved assets | : Remaining original life plus any life extension. ” |

10. Notwithstanding the last sentence of clause 7(4) of the SCA, it is hereby agreed by the parties hereto that this letter and the changes to the provisions of the SCA as provided for by this letter (except for paragraph 8) shall come into effect, and shall be deemed to have come into effect, from 1 January 2014. Paragraph 8 of this letter and the changes to the provisions of the SCA as provided for by paragraph 8 of this letter shall come into effect, and shall be deemed to have come into effect, from 31 December 2013. To the extent of any inconsistency between this paragraph and the last sentence of clause 7(4) of the SCA, this paragraph shall prevail.

IN WITNESS whereof the parties hereto have hereunto set their hands and affixed their seals on the date of this letter which was executed as a deed.

SIGNED SEALED AND DELIVERED by)
Wong Kam Sing)
Secretary for the Environment)
for and on behalf of the Government)
of the Hong Kong Special Administrative)
Region in the presence of:-)
)
)
)
)
.....)
Ng Man Kit, Donald
Principal Assistant Secretary for
the Environment (Electricity Reviews)

The Common Seal of CLP Power)
 Hong Kong Limited was hereunto)
 affixed by authority of the directors)
 in the presence of:-)
) Yuen So Siu Mai Betty
) Vice Chairman
)
)
)
)
) Poon Wai Yin Paul
) Managing Director
)
 and witnessed by:)

Joseph Law
 Planning & Development Director –
 CLP Power

The Common Seal of Castle Peak Power)
 Company Limited was hereunto)
 affixed by authority of the directors)
 in the presence of:-)
) Yuen So Siu Mai Betty
) Vice Chairman
)
)
)
)
) Poon Wai Yin Paul
) Director
)
 and witnessed by:

Joseph Law
 Planning & Development Director –
 CLP Power