## CLP Power Hong Kong Limited (CLP Power)

## **Overview**

In Hong Kong, CLP Power operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), which is 40% owned by CLP Power and 60% owned by ExxonMobil Energy Limited. CLP Power builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power transmits and distributes to its customers in Kowloon and the New Territories. CLP Power owns the transmission and distribution network.

Since 1963, the electricity-related operations of CLP Power and CAPCO (the SoC Companies) have been governed by a Scheme of Control (SoC) Agreement with the Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Government to monitor their financial affairs and operating performance. In return, CLP Power is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies. The current agreement, which took effect from 1 October 1993, covers the period to 30 September 2008. During this period, each of the SoC Companies and the Government has the right during the year ended 30 September 1998 and the year ending 31 December 2003 to request modification of the SoC, subject to agreement being reached by all parties.

## Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:-

- The annual permitted return is 13.5% of the SoC Companies' average net fixed assets relating to the electricity business in Hong Kong; plus a further 1.5% on the average net fixed assets financed by shareholders' investments and acquired after 30 September 1978.
- Any difference between the permitted return and the profit for SoC operations is transferred to or from a Development Fund. The Development Fund does not form part of distributable shareholders' funds and is, in effect, a liability owing to customers carried in CLP Power's books.
- Four charges are deducted from the permitted return. First, shareholders of the SoC Companies pay interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets. Second, shareholders of CLP Power pay a charge of 8% per annum on the sum of the average balances of the Development Fund and special provision account. This charge is credited to a rate reduction reserve in CLP Power's books and is applied as rebates to customers. By a Supplemental Agreement which took effect from 1 October 1998, two more charges have been introduced. Third, shareholders of the SoC Companies pay an excess capacity adjustment of 13.5% on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure. This excess capacity adjustment will only apply to additional generating units installed after CAPCO's Black Point Units 7 and 8 are commissioned. Fourth, shareholders of CLP Power pay interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998.
- The net return is the permitted return less the deductions. The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2002 was 12.52%, whilst the rate of net return for the year ended 31 December 2001 was 12.17%.

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own accounts. In the year 2002, 58% (2001: 58%) of the net return was allocated to CLP Power and 42% (2001: 42%) to CAPCO. If the actual profit for the SoC, when added to the amount available for transfer from the Development Fund is less than the permitted return, the share of any such deficit to be borne by CAPCO is limited to 20%.

The calculations shown below are in accordance with the SoC and the agreements between the SoC Companies. The calculations are extracted from the audited accounts of CLP Power for the year ended 31 December 2002, upon which the auditors have expressed an unqualified opinion.

SoC Revenue   25.844   24.806     Expenses Operating costs Fuel   2,848   2,964     Purchases of nuclear electricity   3,268   2,897     Purchases of nuclear electricity   4,976   5,013     Depreciation   3,164   3,026     Operating interest   617   931     Taxation   1,478   1,138     Interest on long-term financing   9,493   8,837     Adjustment required under the SoC (including share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)   (5)   (69)     Profit for SoC   10,307   9,781   7,781     Transfer to Development Fund   (1,420)   (1,201)     Permitted Return   8,887   8,580     Deduct Interest On long-term financing as above On Development Fund and special provision account transferred to rate reduction reserve   1   8     Divisible as follows CLP Power CLP Power CAPCO   1,138   1,318     CAPCO   3,232   3,074     T,749   7,262   1,297     CLP Power   4,517   4,188     CAPCO <td< th=""><th></th><th>2002 HK\$M</th><th>2001 HK\$M</th></td<>		2002 HK\$M	2001 HK\$M
Operating costs   2,848   2,964     Fuel   3,268   2,897     Purchases of nuclear electricity   4,976   5,013     Depreciation   3,164   3,026     Operating interest   617   931     Taxation   1,478   1,138     Profit after Taxation   9,493   8,837     Interest on increase in customers' deposits   1   8     Interest on long-term financing   818   1,005     Adjustment required under the SoC   818   1,005     (including share of profit on sale of electricity to   10,307   9,781     Transfer to Development Fund   (1,420)   (1,201)     Permitted Return   8,887   8,580     Deduct Interest   0n long-term financing as above   818   1,005     On Development Fund and special provision account   319   305   305     Develot Interest   7,749   7,262   1138   1,318     Net Return   7,749   7,262   3232   3,074     Divisible as follows:   2LP Power <t< th=""><th>SoC Revenue</th><th>25,844</th><th>24,806</th></t<>	SoC Revenue	25,844	24,806
Operating costs   2,848   2,964     Fuel   3,268   2,897     Purchases of nuclear electricity   4,976   5,013     Depreciation   3,164   3,026     Operating interest   617   931     Taxation   1,478   1,138     Profit after Taxation   9,493   8,837     Interest on increase in customers' deposits   1   8     Interest on long-term financing   818   1,005     Adjustment required under the SoC   818   1,005     (including share of profit on sale of electricity to   10,307   9,781     Transfer to Development Fund   (1,420)   (1,201)     Permitted Return   8,887   8,580     Deduct Interest   0n long-term financing as above   818   1,005     On Development Fund and special provision account   319   305   305     Develot Interest   7,749   7,262   1138   1,318     Net Return   7,749   7,262   3232   3,074     Divisible as follows:   2LP Power <t< td=""><td>Expenses</td><td></td><td></td></t<>	Expenses		
Fuel   3,268   2,897     Purchases of nuclear electricity   4,976   5,013     Depreciation   3,164   3,026     Operating interest   617   931     Taxation   1,478   1,138     Interest on increase in customers' deposits   1   8     Interest on long-term financing   818   1,005     Adjustment required under the SoC   818   1,005     (including share of profit on sale of electricity to   10,307   9,781     the Chinese mainland attributable to the SoC Companies)   (5)   (69)     Profit for SoC   10,307   9,781     Transfer to Development Fund   (1,420)   (1,201)     Permitted Return   8,887   8,580     Deduct Interest   0n increase in customers' deposits account   1   8     On Development Fund and special provision account   1138   1,318     Net Return   7,749   7,262     Divisible as follows:-   1,138   1,318     CLP Power   4,517   4,188     CLP Power   4,517		2,848	2,964
Purchases of nuclear electricity   4,976   5,013     Depreciation   3,164   3,026     Operating interest   617   931     Taxation   1,478   1,138     Profit after Taxation   9,493   8,837     Interest on increase in customers' deposits   1   8     Interest on long-term financing   818   1,005     Adjustment required under the 5oC   (including share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)   (5)   (69)     Profit for SoC   10,307   9,781   7,781     Transfer to Development Fund   (1,420)   (1,201)     Permitted Return   8,887   8,580     Deduct Interest   8   1,005     On increase in customers' deposits   1   8     On long-term financing as above   1   8     On long-term financing as above   1,138   1,318     Net Return   7,749   7,262     Divisible as follows:-   4,517   4,188     CLP Power   4,517   4,188     Inte			
Depreciation   3,164   3,026     Operating interest   617   931     Taxation   1,478   1,138     16,351   15,969     Profit after Taxation   9,493   8,837     Interest on increase in customers' deposits   1   8     Interest on long-term financing   818   1,005     Adjustment required under the SoC   (including share of profit on sale of electricity to   10,307   9,781     (Increase in customers' deposits   10,307   9,781   (1,201)     Permitted Return   8.887   8,580     Deduct Interest   0n long-term financing as above   1   8     On long-term financing as above   1   8   8     On long-term financing as above   319   305     On long-term financing as above   1,138   1,318     Net Return   7,749   7,262     Divisible as follows:   2,197   4,188     CLP Power   4,517   4,188     CLP Power' Share of Net Return   4,517   4,188     CLP Power' Share of	Purchases of nuclear electricity		
Taxation   1,478   1,138     Total of the function   16,351   15,969     Profit after Taxation   9,493   8,837     Interest on increase in customers' deposits   1   8     Interest on long-term financing   818   1,005     Adjustment required under the SoC   (including share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)   (5)   (69)     Profit for SoC   10,307   9,781   7,81     Transfer to Development Fund   (1,420)   (1,201)     Permitted Return   8,887   8,580     Deduct Interest   0n increase in customers' deposits   1   8     On nercease in customers' deposits   1   8   8     On ong-term financing as above   818   1,005   1,035     On Development Fund and special provision account transferred to rate reduction reserve   319   305   1,138   1,318     Net Return   7,749   7,262   1,138   1,318   1,217   4,188     CLP Power   4,517   4,188   1,297   1,234		3,164	
Profit after Taxation16,35115,969Profit after Taxation9,4938,837Interest on increase in customers' deposits18Interest on long-term financing8181,005Adjustment required under the SoC(including share of profit on sale of electricity to5)(69)Profit for SoC10,3079,781(1,420)(1,201)Permitted Return8,8878,5808Deduct Interest0n long-term financing as above18On increase in customers' deposits188On long-term financing as above11,381,13181,1318On Development Fund and special provision account transferred to rate reduction reserve319305Divisible as follows:-7,7497,2622CLP Power4,5174,1883,2323,074CLP Power4,5174,1881,2971,234Interest in CAPCO4,5174,1881,2971,234	Operating interest	617	931
Profit after Taxation9,4938,837Interest on increase in customers' deposits18Interest on long-term financing8181,005Adjustment required under the SoC8181,005(including share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)(5)(69)Profit for SoC10,3079,781Transfer to Development Fund(1,420)(1,201)Permitted Return8,8878,580Deduct Interest On increase in customers' deposits18On long-term financing as above8181,005On long-term financing as above8181,005On long-term financing as above11,1381,318Net Return7,7497,262Divisible as follows:- CLP Power4,5174,188CLP Power's Share of Net Return4,5174,188CLP Power4,5174,188Interest in CAPCO1,2971,234	Taxation	1,478	1,138
Interest on increase in customers' deposits18Interest on long-term financing8181,005Adjustment required under the SoC(including share of profit on sale of electricity to the Chinese mainland attributable to the SoC Companies)(5)(69)Profit for SoC10,3079,781(1,420)(1,201)Permitted Return8,8878,580(1,420)(1,201)Permitted Return8,8878,5808(1,420)(1,201)Deduct Interest On increase in customers' deposits1888On long-term financing as above1881,005On Development Fund and special provision account transferred to rate reduction reserve3193053051,1381,3181,3181,3181,3181,318Net Return7,7497,2627,7497,262Divisible as follows:- CLP Power CLP Power's Share of Net Return CLP Power's Share of Net Return4,5174,188 1,2974,188 1,224		16,351	15,969
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Permitted Return8,8878,580Deduct Interest On increase in customers' deposits18On long-term financing as above8181,005On Development Fund and special provision account transferred to rate reduction reserve3193051,1381,3181,318Net Return7,7497,262Divisible as follows:- CLP Power4,5174,188CAPCO3,2323,0747,7497,2627,749CLP Power's Share of Net Return4,5174,188CLP Power4,5174,188Interest in CAPCO1,2341,297			
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On increase in customers' deposits18On long-term financing as above8181,005On Development Fund and special provision account transferred to rate reduction reserve3193051,1381,3181,318Net Return7,7497,262Divisible as follows: CLP Power4,5174,188CAPCO3,2323,074CLP Power's Share of Net Return7,7497,262CLP Power's Share of Net Return4,5174,188CLP Power CLP Power4,5174,1881,12971,2341,297	Permitted Return	8,887	8,580
On increase in customers' deposits18On long-term financing as above8181,005On Development Fund and special provision account transferred to rate reduction reserve3193051,1381,3181,318Net Return7,7497,262Divisible as follows: CLP Power4,5174,188CAPCO3,2323,074CLP Power's Share of Net Return7,7497,262CLP Power's Share of Net Return4,5174,188CLP Power CLP Power4,5174,1881,12971,2341,297			
On long-term financing as above 818 1,005   On Development Fund and special provision account 319 305   transferred to rate reduction reserve 319 305   1,138 1,318 1,318   Net Return 7,749 7,262   Divisible as follows: 4,517 4,188   CLP Power 3,232 3,074   CAPCO 3,232 3,074   CLP Power's Share of Net Return 7,749 7,262   CLP Power 4,517 4,188   CLP Power's Late of Net Return 7,749 7,262   CLP Power Share of Net Return 1,297 1,234	Deduct Interest		
On Development Fund and special provision account transferred to rate reduction reserve3193053193051,1381,318Net Return7,7497,262Divisible as follows:- CLP Power CAPCO4,5174,1883,2323,0743,232CLP Power's Share of Net Return7,7497,262CLP Power Interest in CAPCO4,5174,1881,2971,2341,297	On increase in customers' deposits	1	8
transferred to rate reduction reserve   319   305     1,138   1,318   1,318     Net Return   7,749   7,262     Divisible as follows:   4,517   4,188     CLP Power   3,232   3,074     CAPCO   7,749   7,262     CLP Power's Share of Net Return   7,749   7,262     CLP Power's Share of Net Return   4,517   4,188     Interest in CAPCO   1,297   1,234		818	1,005
1,138   1,318     Net Return   7,749   7,262     Divisible as follows:   4,517   4,188     CLP Power   3,232   3,074     CAPCO   3,232   3,074     CLP Power's Share of Net Return   7,749   7,262     CLP Power   4,517   4,188     Interest in CAPCO   1,297   1,234			
Net Return   7,749   7,262     Divisible as follows:   4,517   4,188     CAPCO   3,232   3,074     T,749   7,262   7,749     CLP Power's Share of Net Return   7,749   7,262     CLP Power in CAPCO   4,517   4,188     Interest in CAPCO   1,297   1,234	transferred to rate reduction reserve	319	305
Divisible as follows:   4     CLP Power   4,517   4,188     CAPCO   3,232   3,074     7,749   7,262     CLP Power's Share of Net Return     CLP Power   4,517   4,188     Interest in CAPCO   1,297   1,234		1,138	1,318
CLP Power   4,517   4,188   4,188   3,232   3,074	Net Return	7,749	7,262
CAPCO   3,232   3,074     7,749   7,262     CLP Power's Share of Net Return       CLP Power   4,517   4,188     Interest in CAPCO   1,297   1,234	Divisible as follows:-		
CLP Power's Share of Net Return   7,749   7,262     CLP Power   4,517   4,188     Interest in CAPCO   1,297   1,234	CLP Power	4,517	4,188
CLP Power's Share of Net Return   4,517   4,188     CLP Power   1,297   1,234	CAPCO	3,232	3,074
CLP Power   4,517   4,188     Interest in CAPCO   1,297   1,234		7,749	7,262
Interest in CAPCO 1,297 1,234	CLP Power's Share of Net Return		
Interest in CAPCO 1,297 1,234	CLP Power	4,517	4,188
5.814 5.422	Interest in CAPCO		
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