

CLP and our Customers



CLP is committed to providing quality service and value to our customers.

CLP started generating electricity in Kowloon in 1903. Over the past century, we have built a tradition of providing an electricity service which is characterised by:-

- Reliability;
- Reasonable and affordable tariffs;
- High levels of productivity and efficiency;
- Environmental responsibility; and
- Responsive customer service.

In this section, we review CLP's performance over the past year and the past decade in meeting our customers' needs and expectations in these critical respects.

Regulatory Regime

CLP's Hong Kong electricity business is regulated by an SoC Agreement with the Hong Kong Government. This regulatory regime has remained largely unchanged since 1964. The key elements of the SoC are:-

- A cap on CLP's annual profits at an amount equal to 13.5% of average net fixed assets (15% for assets acquired by using shareholder funds) less some deductions – a "Net Return" (in 2002, CLP's Net Return was 12.75%);
- Tariff levels and capital investment are approved by the Government under Financial Reviews;
- CLP's financial and operating performance is reviewed by the Government in annual Auditing Reviews;
- In any year, if tariff revenues exceed the Permitted Return plus operating costs, the excess is transferred to a Development Fund. Balances in the Development Fund are used to finance fixed assets and to stabilise tariffs;
- CLP recognises its obligation to contribute to the development of Hong Kong by providing facilities to meet the future demand for electricity; and
- In return for recognising CLP and its shareholders' right to earn a reasonable return, the Government must be assured that service to the consuming public is adequate to meet demand, efficient and of high quality and is provided at the lowest reasonable cost.

The current SoC Agreement comes to an end in 2008. The information set out in this section of the Annual Report demonstrates that a straightforward and stable regulatory regime, fairly administered by the Government and responsibly operated by CLP, has ensured the provision to our customers of an electricity supply which supports the economic and social development of Hong Kong and compares most favourably with world-class standards.

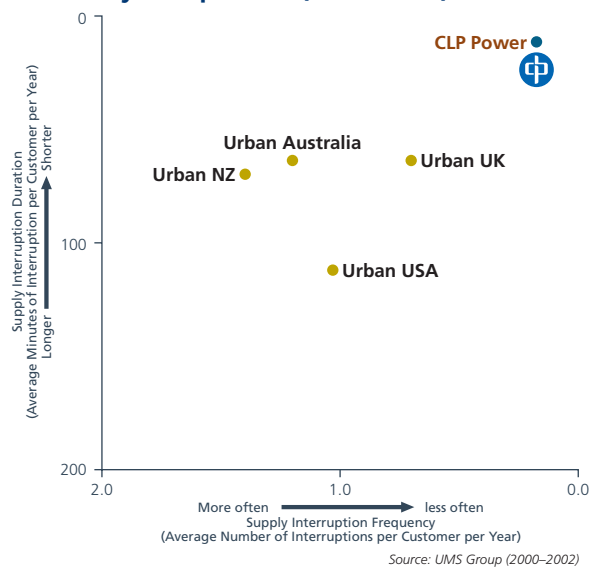
Reliability

CLP's responsibility to ensure the highest levels of reliability is increased by Hong Kong's particular circumstances, including:–

- High population density in CLP's supply area (up to 50,000 inhabitants per square kilometre in some parts of our supply area), so that individual equipment failures may affect many thousands of customers;
- Hong Kong's high summer temperatures and preponderance of high-rise buildings, meaning that interruptions of air-conditioning, refrigeration and lifts are unacceptable to the community; and
- The generating capacity and transmission system in southern China are such that there is limited support to make good any unreliability or inefficiency in the local power generating and transmission system.

CLP's reliability is amongst the best when compared to the USA, UK, Australia and New Zealand. In 2002, our supply reliability was above 99.99%. With the Distribution Management Systems in place since October 2000, our system reliability and customer services have been enhanced. With 2,313 Remote Terminal Units installed and commissioned in 2002, real time monitoring as well as remote control capability of the distribution network have been strengthened, thus further enhancing our operational efficiency.

Reliability Comparison (2000–2002)



To put this in practical terms, a typical customer in CLP's supply area would have had an average of 11 minutes of unplanned power interruption per year during the period 2000-2002. The comparable figure for an average urban area in USA would have been more than 100 minutes per year.

Reasonable and Affordable Tariffs

CLP's electricity tariffs are both reasonable and affordable. Between 1983 and 2002, the average cost of electricity has decreased in real terms (that is, taking into account actual inflation) by 38%. In 2002, we announced that tariffs would be frozen in 2003 and our customers would receive a rebate package amounting to HK\$910 million, comprising:–

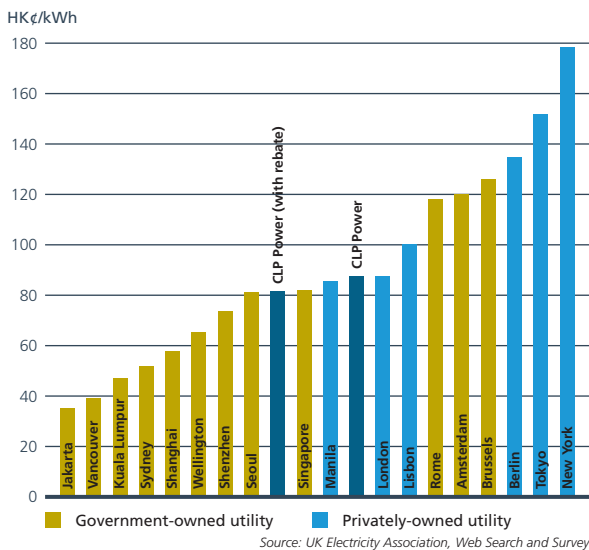
- For residential customers, a rebate of HK¢1.5 per unit based on electricity consumption in 2002, with a minimum rebate of HK\$250 per customer; and
- For non-residential customers, a rebate of HK¢1.5 per unit, with a minimum rebate of HK\$700 per customer; and a Business Relief Rebate of HK¢0.2 per unit.

Since 1982, CLP's overall electricity tariff has been the lowest in Hong Kong. Following our tariff announcement, CLP's overall tariff in 2003 will remain the lowest, by an estimated margin of about 16%.

Tariff levels have now been frozen since 1998. During the intervening period, customers have received four tariff rebates. Because of variations in tariff structure and limited public availability of information, it is difficult to make comparisons on industrial and commercial tariffs. However, as regards residential tariffs, CLP compares favourably among major world cities.

2001 Residential Electricity Price Comparison for Utilities in Major World Cities

Assumption: 3,300 kWh annual consumption



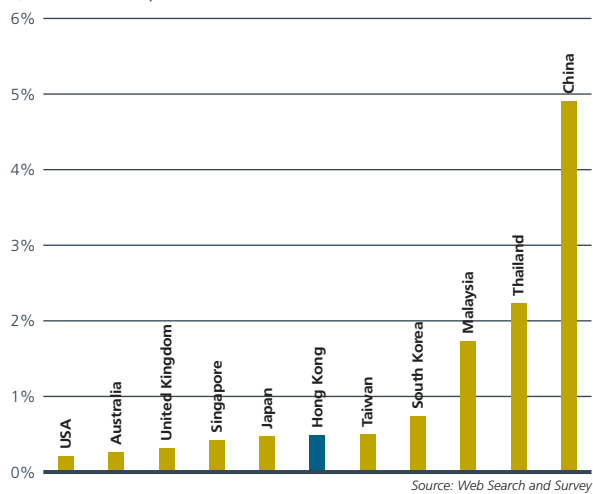
Tariff levels must also be judged by reference to supply reliability, since lower tariffs could be gained by aiming for lower supply quality. In CLP's case, our services combine competitive pricing and high reliability.

Electric utilities in most Asian countries are government-owned, which may lead to public subsidy of tariffs. CLP is an investor-owned utility. The investment in, and operation of, CLP's electricity infrastructure requires no support whatsoever from taxpayers.

Our customers will judge CLP's tariff levels not only in absolute terms, but by affordability by reference to their overall incomes and as part of their household budgets. In this respect, CLP's average electricity price is more affordable than most Asian countries, after adjusting for the effects of currency fluctuation and differing living standards.

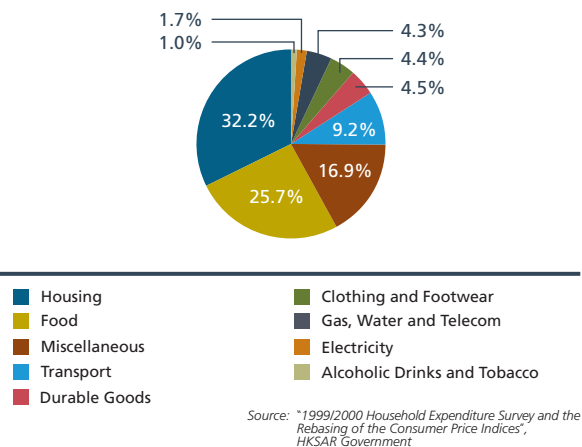
2001 Affordability of Electricity

Electricity Charge for 1,000 kWh / Per Capita GDP



1999/2000 Average Monthly Household Expenditure in Hong Kong (HK\$21,797)

% of Average Monthly Household Expenditure



In 1999/2000, the latest dates for which information is available, electricity costs represented only 1.7% of average monthly total household expenditure in Hong Kong of HK\$21,797.

Productivity and Efficiency

CLP has maintained high levels of productivity and worked hard to make efficiency gains and cost reductions in recent years. On the cost management side, the workforce has decreased from 6,500 in 1992 to 3,800 today, notwithstanding a 47% increase in electricity demand over the same period. As a result, productivity in terms of output per employee has increased by 153% in the last 10 years.

Over the years, CLP has introduced many efficiency improvement initiatives, such as automating all procurement and financial transactions through an enterprise-wide financial management system, progressively retrofitting state-of-the-art distributed control systems to the coal-fired units at Castle Peak and using mobile computing technology coupled with satellite navigation systems to aid field staff in quickly locating equipment and responding to service interruptions. A substantial effort to automate the distribution network over the years has facilitated remote restoration of power supplies, which in turn has minimised disruption to customers as well as increasing productivity.

To further improve the efficiency of planning, construction and maintenance of power network assets, CLP's Enterprise Work Management System was implemented in early 2003. The system is able to manage more than 280,000 pieces of network equipment and over 6,000 projects per year.

Environmental Responsibility

The ways in which CLP fulfills its responsibility to the environment are explained more fully on pages 42 to 45 of this Annual Report. Details of our environmental performance in Hong Kong in 2002 are set out in CLP's "Environmental, Health and Safety Review 2002", available on our website.

In the Policy Agenda 2003, the Hong Kong Government announced an initiative to introduce a pilot emissions trading scheme among power plants in Hong Kong and

Guangdong, as part of a programme with the Guangdong Provincial Government to improve air quality in the Pearl River Delta Region. Whilst details of the scheme are not yet available, this initiative suggests a possible move towards regional pollution caps, but with increased flexibility of industry participants to meet those caps.

CLP is committed to contributing to a clean environment for our community. In principle, we think this is most effectively achieved by allowing each power generator to determine how it can best respect the emissions limits set in its licences, whether through choice of fuels, investment in additional emissions control measures, emissions trading or other means. CLP supports the reduction of emissions in the Pearl River Delta and we are studying strategies to further improve our environmental performance.

Customer Service

CLP customer service philosophy is exemplified by the motto "Customers First". This not only means that our customers always come first, but also that we strive for ways to exceed our customers' expectations. With this in mind, we have enhanced our customer communications through various channels – these include our Customer Consultative Group (which celebrated its 10th anniversary in 2002) and 14 Local Customer Advisory Committees, as well as regular feedback gained through customer focus groups and the reach-out programmes conducted by our account managers.

In meeting the needs of major commercial and industrial customers, a team of account managers provides customised services as well as commercially viable technical advice on energy related solutions. In 2002, over 1,300 companies participated in our power quality seminars, while some 60 companies benefited from energy audits conducted by our specialist engineers, enjoying subsequent energy savings of up to 10%. Working with customers to develop energy efficiency solutions, we have successfully helped many leading organisations, such as hospitals and

hotels, to reduce local pollution and save up to 50% of their water heating costs.

CLP's largest customer service centre was opened in Tsim Sha Tsui last July. The centre provides core services such as service applications and bill payments and offers a new range of value-added customer services and facilities, which range from cooking and other classes of interest, direct access to on-line services, as well as a showcase for energy efficient products and information. Last year, over 2.3 million customers visited our network of 15 Customer Service Centres.

About 44,000 call-backs have been made since our enhanced Customer Telephone Services function was introduced in the second half of last year. Through this system, our staff aim to call back within one hour customers who leave their contact numbers in our voice recording system. The CLP website was also revamped last April to provide more user-friendly information and features to CLP customers. Over 4,000 customers registered to use the CLP WebService soon after its new launch. We also began upgrading our customer information system in 2002, aiming to provide an on-line, integrated and user-friendly system with fully integrated customer services, metering, account management, marketing and sales processes.

CLP promotes a culture of service dedication among staff through training and recognition. In October 2002, for instance, we organised our ExcelSERVICE Ambassador Awards campaign, inviting CLP customers to vote for any

of our 500 frontline staff who they felt had provided excellent customer services. Response was overwhelming, over 100,000 CLP customers participated in the campaign, helping to promote our "best customer service" culture.

To gauge customer satisfaction towards our services, independent consultants, commissioned by the Company, conduct surveys on our different customer groups. The survey results, on Large Power Tariff and Bulk Tariff customers last year, for example, showed excellent scores in areas ranging from billing, emergency services, supply reliability and one-stop shop service. We were ranked by our customers as the top service provider among all utilities in Hong Kong. Surveys on domestic customers have shown progressively increasing scores. Our customer feedback cards showed a satisfaction rate of 98.9% in 2002.

Key aspects of CLP's services to our customers are covered by 14 specific and demanding performance pledges. These pledges and our performance in meeting them are set out on our website.

Our efforts to provide the best possible services to our customers have received special recognition from the community. Building on our 2001 achievements when we received the "Hong Kong Award for Services: Customer Service" and four awards in the HKACE Customer Service Excellence Award, we were awarded a further four HKACE awards in 2002. We aim to ensure that our customers benefit from the world's best practices, both now and into the future.



CLP announces its tariff rebate for 2003