



only **5.58**
unplanned customer
minutes lost in 2003

Emergency supply restoration drill

CLP started supplying electricity to the people of Kowloon on 2 April 1903. A century later, we have a total available generating capacity of 8,263MW and serve 2.1 million customers. On a typical working day, we lay about two km of distribution cable, install one substation, process around 700 account applications/amendments and 400 account terminations, and handle over 8,000 telephone enquiries.

In the Mainland and Asia Pacific, CLP is presently only involved in power generation. In Hong Kong, our activities also include the transmission and distribution of electricity to customers. In this section, we describe CLP's performance over the past year in providing our customers with an electricity supply which, building on a century of experience and service, continues to meet their needs and expectations.

Regulatory Regime

CLP's Hong Kong electricity business is regulated by a Scheme of Control (SoC) Agreement with the Hong Kong Government. The current SoC Agreement will come to an end in 2008. 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 2003, CLP's Net Return was 12.87% on average net fixed assets of the Company);
- Tariff levels and capital investment are approved by the Government under Financial Reviews;

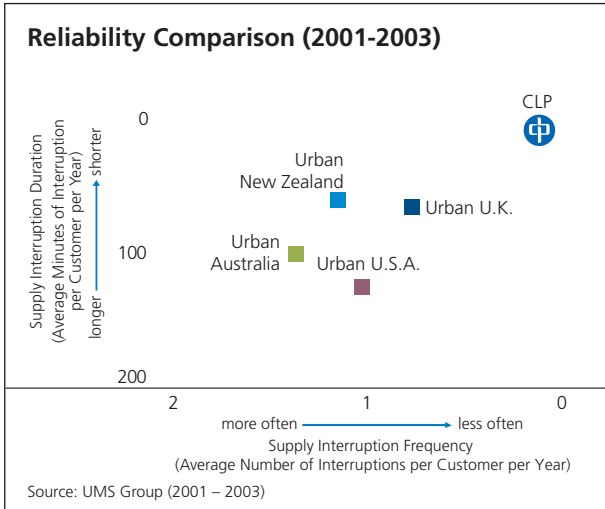
- CLP's financial and operating performance is reviewed by the Government in annual Auditing Reviews;
- In any year, if tariff revenues exceed the Permitted Return plus operating costs, the excess is transferred to a Development Fund. Balances in the Development Fund are used to finance fixed assets 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.

Reliability

Blackout incidents in North America and Europe in 2003, which affected more than 100 million people and caused large-scale economic loss, highlighted the reliance of modern societies on a reliable electricity supply.

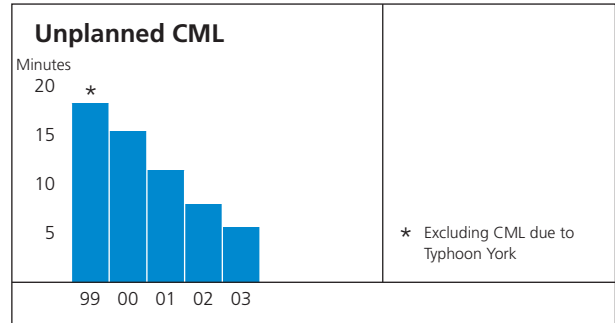
As the sole operator of a vertically integrated electricity business, which is not part of a larger integrated grid system, we have a particular responsibility to our customers to provide them with outstanding levels of supply reliability. This is all the more so given the extremely high population density in our supply area (meaning that individual equipment failures can affect thousands of people), the preponderance of high-rise buildings and a demanding climate in terms of heat and humidity.

The efforts we have made in discharging this responsibility have brought CLP's reliability standards to a level which is amongst the best when compared to the U.S., U.K., Australia and New Zealand.



Unplanned Customer Minutes Lost (CML) per year, which is a standard measure of supply reliability, has improved by 69% over the past five years. The performance of our network during the passage in 2003 of two strong typhoons, Imbudo and Dujan, illustrated the improved robustness of our network. The unplanned CML caused by the combined effect of Imbudo and Dujan was only one-tenth of that caused by typhoon Sam, which passed through Hong Kong in 1999 and was of similar force. A typical customer in CLP's supply area would have had an average of 8.26 minutes of unplanned power interruption

per year during the period from 2001 to 2003. The comparable figure for an average urban area in the U.S.A. would be more than 100 minutes per year.



Reasonable and Affordable Tariffs

CLP's electricity tariffs have remained reasonable and affordable. Between 1983 and 2003, the average cost of electricity has decreased in real terms (that is, taking into account inflation and deflation) by 37%. Since 1982, our overall electricity tariff has been the lowest in Hong Kong. This will remain so in 2004, by an estimated margin of about 15%.

During 2003, we announced that tariffs would be frozen in 2004. There has now been no increase in tariff levels since 1998. We also announced two rebate packages for our customers, amounting to about HK\$960 million. The first of these was a special one-off rebate package in May 2003 made possible through the Company's excellent performance in managing costs. The Company brought forward this rebate from the normal year-end cycle as the

CLP – a strong presence in Hong Kong

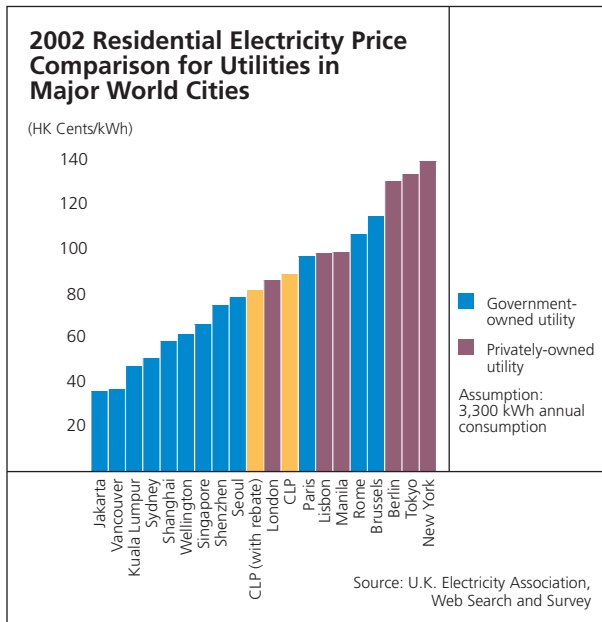


A briefing to one of our Local Customer Advisory Committees



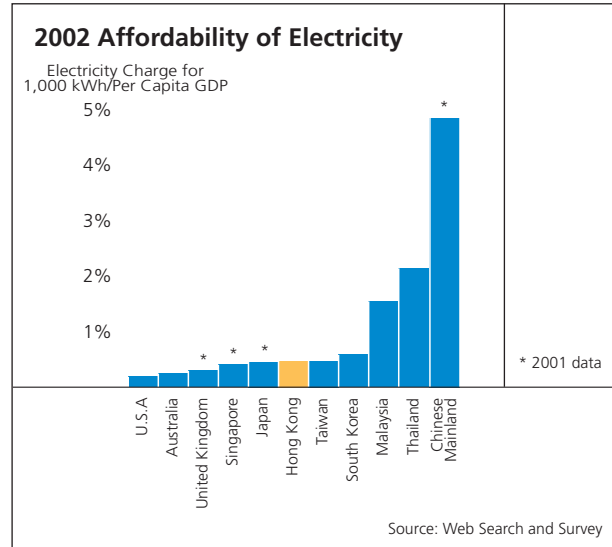
economy recovered from the SARS outbreak. In December 2003, we announced a second rebate whereby customers will receive a rebate of 1.7 cents per unit based on their metered consumption in 2003. The combined effect of these rebates was that our customers enjoyed a 3.8% reduction in their average electricity tariff. Since 1998, we have announced six tariff rebates.

Because of variations in tariff structures and the limited public availability of information, it is difficult to make comparisons of industrial and commercial tariffs. However, as regards residential tariffs, CLP compares favourably amongst major world cities.



These tariff levels must also be judged by reference to supply reliability, since lower tariffs could be achieved at the expense of reliability. CLP's electricity service combines competitive pricing with high reliability. In addition, electric utilities in most Asian countries are government-owned, which may lead to significant public subsidy of tariffs. CLP's tariffs are not subsidised by the Hong Kong Government.

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



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

Productivity and Efficiency

CLP has worked hard to achieve high levels of productivity, improved efficiency and cost reductions. This has led to our excellent performance in tariff management in recent years.

Our workforce in the Hong Kong electricity business has decreased from 6,500 in 1993 to 3,915 as at the end of December 2003. During the same period, local electricity demand has increased by around 41%, meaning that productivity in terms of electricity output per employee has increased by 135% in the last 10 years.

In recent years, we have improved our efficiency through developments such as:

- an Enterprise Work Management System for effective management of the power network assets, as well as distribution and major transmission network projects;
- the use of energy management and distribution management systems to support the remote restoration of power supplies;
- an integrated protection control and supervision system, which allows us to monitor and control substations from a distance; and
- helicopter live-line insulator washing, which increases the security of our transmission network.

Customer Service

We have to understand our customers' needs and expectations in order to meet them. This means that listening to what our customers say is a major driver of our customer service. In addition to regular communication channels such as customer service centres and focus groups, we attach great importance to our community network – our Customer Consultative Group and 14 Local Customer Advisory Committees. Last year, 80 customer liaison groups were formed at public housing estates to further enhance this network.

For our major commercial industrial customers, a team of account managers provides a one-stop customised service and technical advice on energy solutions. In 2003, we provided energy audits to 60 corporate customers, helping them to achieve energy savings of between 2% and 10%. Technical seminars and workshops were held to enhance our customers' knowledge on power quality and other electricity related matters. Safety workshops were held to share experience with our major customers on best practice in safety, health, environmental and quality issues.

In addition to reliability, the quality of electricity supply is of growing importance in contributing to the future development of Hong Kong as a regional financial centre and base for high technology industries. Shortcomings in power quality can have adverse effects on modern sensitive high-tech equipment such as process computers. CLP's Power Quality Technology Centre, established in 2003, signifies our efforts to further improve the quality of supply. This facility helps CLP evaluate and demonstrate the latest power quality mitigation technologies and solutions for protecting our customers' equipment and facilities.

Key aspects of CLP services to our customers are covered by 15 specific and demanding performance pledges. [These pledges and our performance in meeting them during 2003 are set out on our website.](#)

For more than a century, our constant aim has been the provision of the best possible electricity services to our customers. Our performance in 2003 lived up to our tradition of excellence in customer service. We intend to improve that service in 2004.



Customers experiencing the advantages of "no-flame" cooking at CLP DeLight Club

