

28 September 2018

The Hongkong Electric Company, Limited
Hongkong Electric Centre
44 Kennedy Road
Hong Kong

HK Electric Investments Limited
Hongkong Electric Centre
44 Kennedy Road
Hong Kong

Dear Sirs/Madams,

Letter Agreement
Amendments to the SCA

1. This Letter Agreement sets out the agreement reached between the Government of the Hong Kong Special Administrative Region (“Government”), The Hongkong Electric Company, Limited 香港電燈有限公司 (“HEC”) and HK Electric Investments Limited 港燈電力投資有限公司 (“HKEIL”) in connection with the investment by HEC in a liquefied natural gas terminal in Hong Kong and certain matters related to the test for excess generating capacity. Unless otherwise defined, capitalised terms used herein shall have the meanings as defined in the Scheme of Control Agreement dated 25th April 2017 entered amongst the Government, HEC and HKEIL (“SCA”).
2. The parties agree that the SCA shall be amended as follows.
3. Clause 2 of the SCA shall be deleted and replaced with the following:
 - “(1) The parties hereto agree that this Agreement shall govern and apply to the financial affairs of HEC and the manner in which it is responsible for providing, operating and maintaining its facilities and managing the supply of electricity and other matters specified in this Agreement so far as they are Electricity-Related in Hong Kong excluding those associated with or in relation to (a) export sales of electricity in accordance with the separate arrangements between the Government and HEC, unless otherwise expressly stated; and (b) sales to third parties of gas products and/or utilisation by third parties of the TermCo’s LNG terminal in Hong Kong in accordance with the separate arrangements between the Government and HEC, unless otherwise expressly stated.
 - (2) The treatment of the HEC’s investments in the LNG terminal through TermCo is, in substance, no different from its Electricity-Related investments in any other Fixed Assets and shall be subject to the terms of this Agreement. HEC shall not transfer or dispose of its interest in TermCo to a company which is not governed by a scheme of control agreement with the Government without the Government’s prior approval in writing. The parties hereto also agree that the provisions hereunder governing (a) the preparation and submission of Scheme Of Control financial statements (Schedule 2) and the Development Plan Review, Tariff Review and Auditing Review (Schedule 3); and (b) Electricity-Related activities and operations and costs incurred in respect thereof, shall govern and apply to

such of the HEC’s investments in TermCo as may be approved by the Government in writing.”

4. Schedule 1 to the SCA shall be amended as follows:

4.1 Paragraph 10 shall be deleted and replaced with the following:

“(10) “Electricity-Related”

means directly or indirectly appertaining to the generation (including, inter alia, the investments made by HEC through TermCo as may be approved by Government in writing), transmission, distribution, sale of electricity, demand response, energy efficiency and conservation, emissions reduction or promotion and development of renewable energy.”

4.2 Paragraph 14 shall be deleted and replaced with the following:

“(14) “Fixed Assets”

means HEC’s Electricity-Related investments in land, buildings, plant, equipment, and capitalised refurbishment and improvement works, and investments made by HEC through TermCo in the LNG terminal in Hong Kong and such other investments that may be made by HEC through TermCo as may be approved by the Government in writing and, subject to Section A of Schedule 2, includes assets in the course of construction, payments on account, goods in transit and capital stores.”

4.3 The following new paragraphs shall be inserted after paragraph 32:

“(33) “TermCo”

means

(a) the joint venture company to be incorporated in Hong Kong by HEC and CLP Power Hong Kong Limited and/or Castle Peak Power Company Limited; or

(b) any other company wholly owned by HEC, as may be approved by the Government in writing

which company will develop, construct, operate, maintain and own an LNG terminal in Hong Kong and provide related services.”

“(34) “LNG”

means liquefied natural gas.”

5. Schedule 2 to the SCA shall be amended as follows:

5.1 The following new type of asset and useful life shall be inserted in paragraph 2(c) of Section B after the asset “Generating plant and machinery”:

Type of Asset	Useful Life
“LNG terminal”	“35 years”

5.2 Section H shall be deleted and replaced with the following:

“H. FINANCIAL STATEMENTS

For each Year governed under the Scheme Of Control, HEC shall prepare and submit to the Government Scheme Of Control financial statements within three months after the end of its financial year showing the results and financial positions of HEC. For the avoidance of doubt, these Scheme Of Control financial statements shall include HEC’s investments in Fixed Assets made through TermCo and TermCo’s charging of Total Operating Costs and cost of fuels. These Scheme Of Control financial statements shall be audited by HEC’s statutory Certified Public Accountants (Practising) registered under the Professional Accountants Ordinance (Cap. 50). The audit of the Scheme Of Control financial statements shall be performed to form an opinion as to whether the Scheme Of Control financial statements have been properly prepared, in all material respects, in accordance with the provisions of this Agreement and the audit report should be submitted by HEC to the Government.”

6. Schedule 6 to the SCA shall be amended as follows:

6.1 Paragraph 1(4)(a)(iii) shall be deleted and replaced with the following:

“(iii) The Additional Unit will fail the ECT test if the ECT LOLP is found to be below the Target LOLP. If it also fails the RC test, the Additional Unit will then be subject to a second overall test in the following, i.e., second Year. The ECT LOLP for the second test will be derived from taking 104% of the actual maximum demand of the second Year and the installed capacity at the time of maximum demand of the second Year excluding the capacity of the Additional Unit. The Additional Unit will fail the ECT test for the second time if the ECT LOLP for the second Year is also found to be below the Target LOLP. The same principle for the ECT test described above will be followed if the Additional Unit is subject to the overall test in subsequent Years.”

6.2 Paragraph 1(4)(b) shall be deleted and replaced with the following:

“(b) RC Test

If, in the Year in which the test is conducted, the reserve capacity available excluding the Additional Unit exceeds the capacity of the largest unit (the number of units shall be subject to review and agreement of the Government and HEC in future) on HEC’s system plus the hot standby reserve requirement, the Additional Unit fails the RC test.”

6.3 The formula for determining “ECT LOLP” under paragraph 4(1)(a) shall be deleted and replaced with the following formula:

“ECT LOLP
= LOLP³ as derived from 104% of the actual local maximum demand in the Year the ECT test applies and the installed capacity at the time of maximum demand of the Year, excluding the capacity of the Additional Unit.”

7. Notwithstanding any provisions elsewhere in the SCA to the contrary, if there is any inconsistency or discrepancy between this Letter Agreement and the SCA, the content of this Letter Agreement shall prevail.
8. The SCA and this Letter Agreement shall be read and construed as one single document. Save as expressly amended by this Letter Agreement, all terms and conditions of the SCA shall remain in full force and effect.
9. This Letter Agreement shall be governed by and interpreted in accordance with the laws of Hong Kong. Any dispute, controversy or claim arising out of or relating to this Letter Agreement, or

the breach, termination or invalidity thereof, shall be settled by arbitration as provided for and contemplated under Clause 9 of the SCA, which shall be deemed to have been incorporated into this Letter Agreement, mutatis mutandis.

IN WITNESS whereof the parties hereto have hereunto set their hands and affixed their seals on the date of this Letter Agreement 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:-)
) Wong Kam Sing
)
)
)
.....)
Vincent Liu)

The Common Seal of)
The Hongkong Electric Company, Limited)
香港電燈有限公司 was hereunto)
affixed by authority of the directors)
in the presence of:-)
)
) Fok Kin Ning, Canning
) Chairman
)
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.....)

and witnessed by:)
Ng Wai Cheong Alex, Company Secretary) Wan Chi Tin
) Managing Director
)

The Common Seal of)
HK Electric Investments Limited)
港燈電力投資有限公司 was hereunto affixed by)
authority of the directors)
in the presence of:-)
)
) Fok Kin Ning, Canning
) Chairman
)
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.....)

and witnessed by:)
Ng Wai Cheong, Alex, Company Secretary) Wan Chi Tin
) Chief Executive Officer and
) Executive Director