

19 December 2014

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

2013 SCA Mid-term Review – amendments to the SCA

Dear Sirs/Madams,

This letter sets out the agreement reached between the Government of the Hong Kong Special Administrative Region (“Government”) and The Hongkong Electric Company, Limited (“HEC”) as part of the review conducted during the Year ending 31 December 2013 pursuant to clause 7(4) of the Scheme of Control Agreement (“SCA”) dated 7 January 2008 amongst the Government, HEC and HK Electric Investments Limited as amended by a deed of novation dated 2 July 2014 entered into amongst the same parties and Power Assets Holdings Limited.

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. Customer Performance Incentives /Penalties

- 2.1 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%

3. Energy Efficiency

3.1 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 31 December 2018 (“Loan Fund Period”) shall be established by HEC to provide loans to non-Government customers of HEC (“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, HEC shall make available HK\$12.5 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 from 1 January 2014 to 31 December 2018 shall not exceed HK\$62.5 million at any time.

5.2 During the Loan Fund Period, HEC 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. HEC 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 HEC shall at least 12 months before 31 December 2018 institute specific discussions which may include recovery of amounts, losses and/or expenditure incurred or to be incurred by HEC in connection with the operation and administration of the Energy Saving Loan Fund after 31 December 2018 including (a) all amounts which may be reimbursed by HEC after 31 December 2018 to Borrowers for their interest payments as mentioned in paragraph 5.2 above; (b) if HEC takes up the lender role to advance loans to Borrowers, any bad debts arising after 31 December 2018 representing the un-repaid principal amounts of the loans advanced by HEC to the Borrowers during the Loan Fund Period; and (c) administrative and legal costs incurred by HEC after 31 December 2018 in relation to the general administration of the Energy Saving Loan Fund (to the extent

necessary to discharge HEC's 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 HEC as lender during the Loan Fund Period.

3.2 The following shall be added after the words "performance-related" on the last line of clause 4(1): "and also adjustment specified in clause 4(3)(i) which is an amount representing the contribution by HEC to the Energy Efficiency Fund."

3.3 The word "and" shall be moved from after clause 4(3)(g) of the SCA to after clause 4(3)(h) of the SCA; and the full stop at the end of clause 4(3)(h) shall be changed to a semi-colon; and the following wording shall be added after such semi-colon in clause 4(3)(h) of the SCA as follows:

"any upward adjustment under this clause attributable to the two amounts calculated in accordance with paragraphs 14(a) and (b) of Schedule 6 (if any) shall be known as "Energy Efficiency Incentive Amount"".

3.4 A new clause 4(3)(i) shall be added after clause 4(3)(h) of the SCA as follows:

"(i) deduction of an amount equal to the Energy Efficiency Incentive Amount in respect of that Year (if any). The deduction shall be for funding the contribution to the Energy Efficiency Fund by HEC in accordance with paragraph 5A of Schedule 6. Such deduction shall be made in respect of each Year during the period from 1 January 2013 to 31 December 2017 provided that there is an Energy Efficiency Incentive Amount in respect of that Year, but no such deduction shall be made for the Year ending 31 December 2018."

3.5 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 HEC (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 HEC shall out of the funding available as a result of the deduction as provided for under clause 4(3)(i) in respect of a Year make a non-refundable contribution to the Energy Efficiency Fund (each an “EEF Contribution”) in the following Year. To the extent that there is no deduction to be made under clause 4(3)(i) in respect of that Year because there is no Energy Efficiency Incentive Amount added to the Permitted Return under clause 4(3)(h) in respect of the same Year, HEC shall have no obligation to make an EEF Contribution in the following Year.
- 5A.3 HEC shall, no later than 1 month after the Government’s confirmation of the Energy Efficiency Incentive Amount and therefore the amount of the deduction under clause 4(3)(i) in respect of a Year during the period from 1 January 2013 to 31 December 2017, make the EEF Contribution (if any) to the Energy Efficiency Fund. If the Energy Efficiency Incentive Amount is different from the amount as confirmed by the Government, HEC shall make corresponding adjustment to the Energy Efficiency Incentive Amount as well as the deduction under clause 4(3)(i) to align with the amount as confirmed by the Government.
- 5A.4 EEF Contributions to the Energy Efficiency Fund shall not have any impact on tariffs. Without prejudice to the generality of the foregoing, HEC 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 HEC.
- 5A.6 The Energy Efficiency Fund shall be maintained and administered by HEC from the time of its establishment as specified in paragraph 5A.1 to 31 December 2018. Whilst administering the Energy Efficiency Fund, HEC 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 31 December 2018 shall be further discussed and agreed between the Government and HEC subject to the requirement that such balance must not be refunded to HEC.”

4. Treatment of Insurance Compensation on Damaged Assets

4.1 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.

4.2 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.”

5. Information Transparency

5.1 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 HEC’s aforementioned obligation, the scope and presentation of the disclosure to the Government shall be mutually agreed between the Government and HEC when a Development Plan Review is conducted jointly by the Government and HEC.”

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

“(4) HEC, as part of its 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 the Government and HEC prior to each disclosure.”

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

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

6. Upper Limit of the Tariff Stabilisation Fund

- 6.1 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%”.

7. Rate Reduction Reserve

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

“(4) HEC 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.”

- 7.2 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 HEC. 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. HEC 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).”

8. 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 paragraphs 3.2 to 3.5 and paragraph 7) shall come into effect, and shall be deemed to have come into effect, from 1 January 2014. Paragraphs 3.2 to 3.5 and paragraph 7 of this letter and the changes to the provisions of the SCA as provided for by paragraphs 3.2 to 3.5 and paragraph 7 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:-)

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.....)
Ng Man Kit, Donald
Principal Assistant Secretary for
the Environment (Electricity Reviews)

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:-)

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.....
Fok Kin Ning, Canning
Chairman

.....
Wan Chi Tin
Managing Director

.....)
and witnessed by:
Ng Wai Cheong, Alex
Company Secretary

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
)
)
)
)
) Wan Chi Tin
) Chief Executive Officer
) and Executive Director

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and witnessed by:
Ng Wai Cheong, Alex
Company Secretary