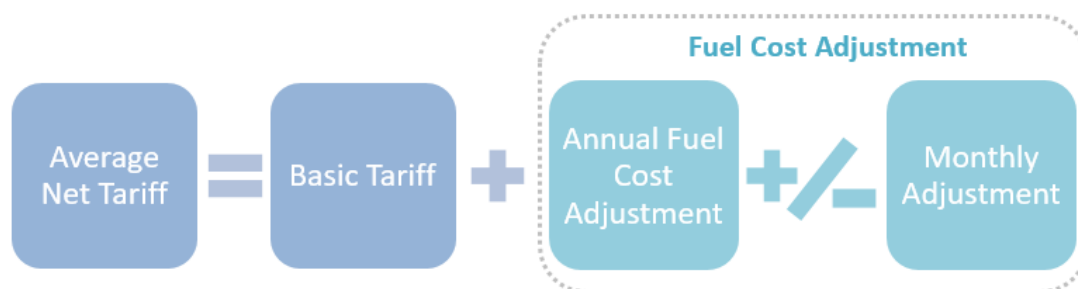
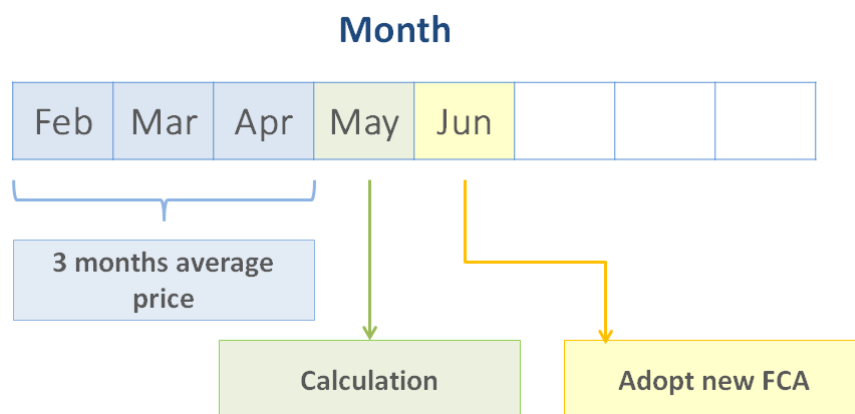


Explanatory Note for Fuel Cost Adjustment

After the new Scheme of Control Agreement (SCA) comes into effect on 1 October 2018, the annual review mechanism will remain, and the Fuel Cost Adjustment (FCA) in the tariff package will continue to be set based on a projection of fuel prices for the following year. To react to fuel price changes in a more timely manner and be more transparent, the FCA will be revised automatically during the year on a monthly basis to take into account the actual prices of fuels used.



The monthly FCA will be calculated based on the average actual fuel prices over three preceding months as compared with the fuel prices projected at the most recent Tariff Review (TR). The revised FCA will be applied the following month after a process of data collection and verification. For instance, actual prices of fuels consumed between February and April will be collected and verified in May for the calculation of the adjustment to be applied in June.



For each fuel:

$$\text{Actual price for a particular month} = \frac{\text{consumed fuel cost over the month}}{\text{quantities of fuel consumed in GJ}}$$

Explanatory Note for Fuel Cost Adjustment

Monthly Adjustment Calculation

The following example is provided to explain the calculation of change in fuel cost per unit sold due to fuel price change.

The calculation of the monthly adjustment for June would be as follows (Fictitious data, for illustration purposes only):

	(a)				(b)	(c) = [(b) - (a)] / (a)	(d)	(c) x (d)
Fuel	TR fuel price forecast (HK\$/GJ) [^]	Feb	Mar	Apr	3-month average	Price Change %	Projected fuel cost per unit (¢/unit) [#]	Monthly Adjustment (¢/unit)
Coal	24.5	22.6	24.3	25.1	24.0	-2.0%	10.5	-0.2
Gas	91.6	79.9	74.9	85.9	80.2	-12.4%	20.6	-2.6
Oil	127.0	124.1	117.6	116.5	119.4	-6.0%	0.4	0.0
Total:							-2.8	(Monthly adjustment to be applied to the month of June)

[^] Annual projected price of each fuel in the Tariff Review

[#] Projected fuel cost per unit is the expected fuel cost incurred by fuel type for meeting each unit of electricity demand in the Tariff Review

Only actual fuel prices of the period after the effective date of the most recent tariff review will be used as reference price for the adjustment. This is because any previous fuel price fluctuations would have been accounted for in the Tariff Review process through the corresponding annual FCA adjustment. Hence, the annual FCA announced in Tariff Review will be adopted as the FCA for the first two months after the effective date of the Tariff Review.

