

4. Financial Performance

Under the new SCA, the rate of Permitted Return for electricity companies has dropped from 9.99% of the previous SCA to 8% now. Performance-based incentives and penalties which encourage customer service quality, energy efficiency, demand response reduction and renewable energy development continue to be provided. With the reduction in the rate of Permitted Return, HK Electric lowered its Basic Tariff from 109.1 cents per unit of electricity in 2018 to 101.3 cents per unit in 2019.

Gross Tariff Revenue decreased by \$1,530 million to \$12,822 million attributable to lower Basic Tariffs and lower recovery for costs of fuel. The 2019 Permitted Return decreased to \$4,285 million as compared with \$5,155 million in 2018 while the Net Return dropped to \$3,195 million from \$4,166 million in 2018.

Our net debt, being the Company's external borrowings net off its bank deposits and cash balances, was \$34,065 million as at end 2019. It was slightly higher than that of \$33,262 million at end 2018 mainly for financing capital expenditure.

5-year Key Financial Figures

HK\$ million	2019	2018	2017	2016	2015
For the year ended 31 December					
Gross tariff revenue	12,822	14,352	13,618	12,658	13,100
Fuel costs	3,842	4,530	3,785	3,105	3,697
Operating costs	1,723	1,656	1,592	1,460	1,277
Interest	764	779	719	811	838
Depreciation and amortisation	2,342	2,355	2,210	2,127	2,054
Scheme of Control taxation	688	557	698	1,209	1,140
Permitted Return	4,285	5,155	5,196	4,948	4,907
Net Return	3,195	4,166	4,317	4,121	4,172
Transfer (to)/from Tariff Stabilisation Fund	(222)	(303)	(291)	181	84
Transfer to Smart Power Care Fund/ Smart Power Fund	(32)	-	(5)	(5)	(5)
Transfer to Rate Reduction Reserve	(14)	(6)	(1)	(1)	(1)
Capital expenditure (Note)	4,620	3,695	2,929	2,799	2,516
Assets/(liabilities) balances as at 31 December					
Scheme of Control Fixed Assets	53,858	51,772	50,634	50,135	49,656
Bank deposits and cash	297	33	1,658	310	6,155
Bank loans and other borrowings	(34,362)	(33,295)	(32,714)	(31,035)	(38,546)

Note: The capital expenditure is solely for electricity-related property, plant and equipment. The capital expenditure excludes additions of right-of-use assets and includes capital expenditure of the offshore LNG terminal developed by a joint venture.

4.1. Scheme of Control Fixed Assets and Return

The values of the Scheme of Control Fixed Assets which mainly include property, plant and equipment and interests in leasehold land reached \$53,858 million as at end 2019. The increase was contributed by capital expenditure of \$4,620 million and net off depreciation charge of \$2,342 million during the year.



In 2019, the Company recorded a Permitted Return of \$4,285 million while the Net Return of \$3,195 million was derived after making other adjustments including interest on borrowed capital amounted to \$1,043 million, transfer to Smart Power Care Fund amounted to \$32 million, Rate Reduction Reserve amounted to \$14 million and interest on incremental customers' deposit amounted to \$1 million.

4.2. Capital Expenditure

All of HK Electric's investments are subject to close scrutiny by the Government. A 5-year Development Plan (DP), covering the Company's projected capital expenditure and operating costs, electricity sales and basic tariff forecasts, has to be submitted for approval by the Executive Council.

The total approved capital expenditure under the 2019-2023 DP amounts to \$26.6 billion, of which the capital expenditure in 2019 was lower than the DP forecast of \$5,499 million mainly due to construction progress for power generation system projects.

4.3. Tariff Stabilisation Fund and Fuel Clause Recovery Account

The Tariff Stabilisation Fund ("TSF") was established to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. On account of our prudent financial management and operational efficiency, \$222 million was transferred from the Scheme of Control net revenue to the TSF resulting in an increased balance of \$848 million as at end 2019.

In 2019, a more frequent Fuel Clause Charge adjustment mechanism was implemented and Fuel Clause Charge was reviewed on a monthly basis to reflect actual fuel costs in a timely manner. Together with a special fuel rebate, albeit reduced at 2.3 cents (2018: 16.0 cents) per unit of electricity, this resulted in a further drop in the Fuel Clause Recovery Account ("FCRA") balance from 2018 of \$855 million to 2019 of \$647 million.

4.4. Operations Overview

The electricity sales in 2019 decreased by 0.2% from that of 2018 as a result of conservation efforts across the community and milder weather during the year despite a slight increase in the number of customers to about 581,000. All other operating parameters such as annual load factor, thermal efficiency, plant availability and number of employees remained stable. The installed capacity of the Company remained at 3,237 MW at end 2019. With the commissioning of L10 in February 2020, the installed capacity has been increased to 3,617 MW.

Scheme of Control Net Fixed Assets

Balance as at 31 December		
HK\$ million	2019	2018
Generation	22,456	21,125
Transmission and Distribution	27,854	27,669
Customer and Corporate Services Development	3,548	2,978
Total	53,858	51,772

Capital Expenditure

For the year ended 31 December 2019	
HK\$ million	
Power Generation System (Note)	2,802
Transmission and Distribution System	1,543
Customer and Corporate Services Development	275
Total	4,620

Note: Includes HK Electric's share of capital expenditure for the offshore LNG terminal developed by a joint venture.

TSF and FCRA

Balance as at 31 December			
HK\$ million	2019	2018	2017
Tariff Stabilisation Fund	848	620	316
Fuel Clause Recovery Account	647	855	2,771

Operating Expenditure

For the year ended 31 December 2019			
HK\$ million	Operating costs, depreciation & amortisation	Fuel costs	
Generation	2,141	3,842	5,983
Transmission and Distribution	1,008	-	1,008
Sales and Customer Services	269	-	269
Corporate (Note)	2,099	-	2,099
Total	5,517	3,842	9,359

Note: Includes interest and Scheme of Control taxation.