

4. Financial Performance

In 2018, HK Electric continued to achieve steady financial performance. Due to higher fuel prices in 2018 compared with 2017, the Company had to recover a higher fuel cost from our customers, hence the growth in gross tariff revenue. 2018 Permitted Return was approximate to that of 2017, while, Net Return dropped to \$4,166 million from \$4,317 million in 2017 attributable to higher interest on borrowed capital.

Our net debt, being the Company's external borrowings net off its bank deposits and cash balances, was \$33,262 million as at end 2018. It was slightly higher than that of \$31,056 million at end 2017 mainly for financing capital expenditure.

5-year Key Financial Figures (HK\$ million)

	2018	2017	2016	2015	2014
For the year ended 31 December					
Gross tariff revenue	14,352	13,618	12,658	13,100	14,222
Fuel costs	4,530	3,785	3,105	3,697	4,818
Operating costs	1,656	1,592	1,460	1,277	1,143
Interest	779	719	811	838	789
Permitted return	5,155	5,196	4,948	4,907	4,916
Net return	4,166	4,317	4,121	4,172	4,216
Transfer from/(to) Tariff Stabilisation Fund	(303)	(291)	181	84	(249)
Transfer to Smart Power Fund	-	(5)	(5)	(5)	(10)
Transfer to Rate Reduction Reserve	(6)	(1)	(1)	(1)	-
Capital expenditure (Note)	3,695	2,929	2,799	2,516	2,252
Assets/(liabilities) balances as at 31 December					
Property, plant and equipment and interests in leasehold land	51,753	50,494	49,971	49,482	49,198
Bank deposits and cash	33	1,658	310	6,155	4,629
Bank loans and other borrowings	(33,295)	(32,714)	(31,035)	(38,546)	(39,223)

Note: These are capital expenditures solely for electricity-related property, plant and equipment.

4.1. Fixed Assets and Return

The values of the fixed assets, which mainly include property, plant and equipment (e.g. generating units, transmission and distribution substations) and interests in leasehold land, etc. have stable growth over the past 5 years. With capital expenditure of \$3,695 million during the year, fixed assets has increased to \$51,753 million as at end 2018.

In 2018, the Company recorded a Permitted Return of \$5,155 million while the Net Return of \$4,166 million was derived after making other adjustments including interest on borrowed capital (2018 was \$983 million) and transfer to Rate Reduction Reserve (transfer in 2018 was \$6 million), etc. There was no transfer to Smart Power Fund in 2018 as 2017 was the final year that the Company contributed to the Smart Power Fund under the previous SCA.



4.2. Capital Expenditure

The total approved capital expenditure under the 2014-2018 Development Plan amounts to \$13.6 billion. The cumulative total of HK Electric's capital expenditure from 2014 to 2018 is in line with the Development Plan forecasts.

4.3. Tariff Stabilisation Fund and Fuel Clause Recovery Account

On account of our prudent financial management and operational efficiency for the year, and with electricity sales in 2018 better than forecast, \$303 million was transferred from the Scheme of Control net revenue to the TSF resulting in an increased balance of \$620 million as at end 2018.

In 2018, HK Electric continued to provide a special fuel rebate but at a reduced amount of 16 cents (2017 was 17.9 cents) per unit of electricity to our customers. Together with the rise in fuel costs in 2018, this resulted in a big drop in the Fuel Clause Recovery Account balance from 2017 of \$2,771 million to 2018 of \$855 million. In light of the fact that the Fuel Clause Recovery Account has such a low balance, the special fuel rebate offered to our customers has further reduced to 2.3 cents per unit of electricity in 2019.

Balance as at 31 December (HK\$ million)

	2018	2017	2016
Tariff Stabilisation Fund	620	316	24
Fuel Clause Recovery Account	855	2,771	4,088

4.4. Operations Overview

Both the electricity sales and system maximum demand in 2018 declined as a result of conservation efforts across the community and milder weather in summer and winter months although the number of customers recorded a slight increase to about 579,000. With the decommissioning of L3 in May 2018, the installed capacity of the Company has dropped to 3,237MW. All other operating parameters such as annual load factor, thermal efficiency, plant availability, etc. remained stable.

5-year Operating Statistics

		2018	2017	2016	2015	2014
Units sold (millions of kWh)	Commercial	7,766	7,824	7,893	8,012	8,015
	Residential	2,466	2,485	2,584	2,541	2,610
	Industrial	305	306	315	326	330
	Total (millions of kWh)	10,537	10,615	10,792	10,879	10,955
	Annual increase/(decrease) (%)	(0.7)	(1.6)	(0.8)	(0.7)	1.7
Average Net Tariff under Tariff Review (HK cents per kWh)	Basic Tariff	109.1	108.9	105.5	102.6	101.8
	Special Rent & Rates Rebate	(4.0)	(4.0)	-	-	-
	Net Basic Tariff	105.1	104.9	105.5	102.6	101.8
	Fuel Clause Charge	23.4	23.4	27.9	32.3	33.1
	Special Fuel Rebate	(16.0)	(17.9)	-	-	-
	Net Tariff	112.5	110.4	133.4	134.9	134.9
Installed Capacity (MW)	Number of Customers (000's)	579	577	575	572	570
	Gas turbines and standby units	555	555	555	555	555
	Coal-fired units	2,000	2,250	2,500	2,500	2,500
	Gas-fired combined cycle units	680	680	680	680	680
	Wind turbine and photovoltaic system	2	2	2	2	2
Total (MW)	3,237	3,487	3,737	3,737	3,737	
System maximum demand (MW)	2,376	2,513	2,428	2,427	2,460	
Annual load factor (%)	56.8	54.0	56.7	57.3	56.9	
Thermal efficiency (%)	35.6	35.9	35.9	36.2	36.1	
Plant availability (%)	90.7	87.1	85.6	85.5	88.4	
Number of switching stations	24	24	24	24	24	
Number of zone substations	27	27	27	27	27	
Number of customer substations	3,912	3,889	3,848	3,818	3,793	
Number of employees	1,763	1,776	1,790	1,801	1,814	