

4. Financial Performance

In 2020, our Gross Tariff Revenue decreased by \$474 million to \$12,348 million attributable to lower sales of electricity and lower recovery for costs of fuel. Permitted Return increased to \$4,493 million as compared with \$4,285 million in 2019 as a result of the growth in values of our net fixed assets. Coupled with lower interest on borrowed capital, the Net Return rose to \$3,442 million from \$3,195 million in 2019.

As at end 2020, net debt, being the Company's external borrowings net off its bank deposits and cash balances, increased by \$2,078 million from \$34,065 million in 2019 to reach \$36,143 million, mainly for financing capital expenditure.

5-year Key Financial Figures

HK\$ million	2020	2019	2018	2017	2016
For the year ended 31 December					
Gross tariff revenue	12,348	12,822	14,352	13,618	12,658
Fuel costs	3,453	3,842	4,530	3,785	3,105
Operating costs	1,697	1,723	1,656	1,592	1,460
Interest	778	764	779	719	811
Depreciation and amortisation	2,414	2,342	2,355	2,210	2,127
Scheme of Control taxation	695	688	557	698	1,209
Permitted Return (Note 1)	4,493	4,285	5,155	5,196	4,948
Net Return	3,442	3,195	4,166	4,317	4,121
Transfer from/(to) Tariff Stabilisation Fund	164	(222)	(303)	(291)	181
Transfer to Smart Power Care Fund/ Smart Power Fund	(25)	(32)	-	(5)	(5)
Transfer to Rate Reduction Reserve	(8)	(14)	(6)	(1)	(1)
Capital expenditure (Note 2)	5,485	4,620	3,695	2,929	2,799
Assets/(liabilities) balances as at 31 December					
Scheme of Control Fixed Assets	56,745	53,858	51,772	50,634	50,135
Bank deposits and cash	51	297	33	1,658	310
Bank loans and other borrowings	(36,194)	(34,362)	(33,295)	(32,714)	(31,035)

Note 1: Including the adjustments of performance-based incentives for the year.

Note 2: 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 \$56,745 million as at end 2020. The increase was contributed by capital expenditure of \$5,485 million and net off depreciation charge of \$2,414 million during the year.

In 2020, the Company recorded a Permitted Return of \$4,493 million while the Net Return of \$3,442 million was derived after making other adjustments including interest on borrowed capital amounted to \$1,018 million, transfer to Smart Power Care Fund amounted to \$25 million and Rate Reduction Reserve amounted to \$8 million.

Scheme of Control Net Fixed Assets

Balance as at 31 December

HK\$ million	2020	2019
Generation	24,322	22,456
Transmission and Distribution	28,590	27,854
Customer and Corporate Services Development	3,833	3,548
Total	56,745	53,858

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, 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. The actual capital expenditure in 2020 was \$5,485 million.

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. Due to a significant drop in electricity sales during the year, a transfer of \$164 million was made from the TSF resulting in a decreased balance of \$698 million as at end 2020.

To reflect actual fuel costs in a timely manner, more frequent Fuel Clause Charge adjustment mechanism was in place and Fuel Clause Charge was reviewed on a monthly basis. With the softening of fuel prices in 2020, Fuel Clause Recovery Account ("FCRA") balance increased from 2019 of \$647 million to 2020 of \$796 million.

4.4. Operations Overview

The electricity sales in 2020 decreased by 3.7% from that of 2019. It was mainly attributable to anti-pandemic measures in place during the year as well as conservation efforts across the community despite a slight increase in the number of customers to more than 583,000. All other operating parameters such as annual load factor, thermal efficiency, plant availability and number of employees remained stable.

With the commissioning of L10 in February 2020, the installed capacity now stands at 3,617 MW. To achieve Hong Kong's fuel mix target of around 50% gas generation in 2020, HK Electric not only had to build a new gas-fired unit L10, but also defer the retirement of an old gas-fired unit GT57. Instead of the original schedule of 2020, GT57 will now retire in 2022 when another new gas-fired unit L11 comes into operation. This is an interim measure to achieve government objective. The installed capacity in 2020 without GT57 would otherwise be 3,272 MW.

Capital Expenditure

For the year ended 31 December 2020

HK\$ million	
Power Generation System (Note)	3,380
Transmission and Distribution System	1,791
Customer and Corporate Services Development	314
Total	5,485

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	2020	2019	2018
Tariff Stabilisation Fund	698	848	620
Fuel Clause Recovery Account	796	647	855

Operating Expenditure

For the year ended 31 December 2020

HK\$ million	Operating costs, depreciation & amortisation	Fuel costs	
Generation	2,118	3,453	5,571
Transmission and Distribution	1,054	-	1,054
Sales and Customer Services	257	-	257
Corporate (Note)	2,155	-	2,155
Total	5,584	3,453	9,037

Note: Includes interest and Scheme of Control taxation.

