

4. Financial Performance

While reducing tariffs across the board in 2016, HK Electric continued to maintain robust financial performance where values of net fixed assets and profits remained stable. And thanks to

lower-than-expected fuel costs which resulted in surplus in the Fuel Clause Recovery Account, a further tariff reduction has been in effect for 2017, delivering savings of over 17% on average for all customers.

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

	2016	2015	2014	2013	2012
For the year ended 31 December					
Gross tariff revenue	12,658	13,100	14,222	13,753	14,305
Fuel costs	3,105	3,697	4,818	5,271	5,673
Operating costs	1,460	1,277	1,143	995	1,040
Interest	811	838	789	285	264
Permitted return	4,948	4,907	4,916	4,909	4,896
Net return	4,121	4,172	4,216	4,620	4,624
Transfer from/(to) Tariff Stabilisation Fund	181	84	(249)	389	72
Transfer to Smart Power Fund	(5)	(5)	(10)	-	-
Capital expenditure	2,799	2,516	2,252	1,973	2,613
Assets/(liabilities) balances as at 31 December					
Property, plant and equipment and interests in leasehold land	49,971	49,482	49,198	49,137	49,345
Bank deposits and cash	310	6,155	4,629	1,060	8
Bank loans and other borrowings	(31,035)	(38,546)	(39,223)	(30,077)	(27,210)
Loan capital	-	-	-	(8,845)	(8,845)

4.1. Fixed Assets and Return

The SCA provides for HK Electric a full recovery of its total operating costs from the gross tariff revenue, and earn a Permitted Return based principally on total values of its average net fixed assets and any financial incentives (or penalties). In the past 5 years, 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 remained stable. At end of 2016, fixed assets stood at \$49,971 million.

In 2016, the Company recorded a Permitted Return of \$4,948 million while the Net Return of \$4,121 million was derived after making other adjustments including interest on borrowed capital (2016 was \$821 million) and transfer to Smart Power Fund (transfer in 2016 was \$5 million), etc.

4.2. Capital Expenditure

All of HK Electric's investments are subject to the close scrutiny by the Government. A 5-year Development Plan, 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.

In September 2016, the Government approved the installation of an additional generating unit L11 to replace a retiring gas-fired unit, bringing the total approved capital expenditure under the 2014-2018 Development Plan to \$13.6 billion. At \$7,567 million, the cumulative total of HK Electric's capital expenditure from 2014 to 2016 is in line with the Development Plan forecasts.



4.3. Tariff Stabilisation Fund and Fuel Clause Recovery Account

Balance as at 31 December (HK\$ million)

	2016	2015	2014
Tariff Stabilisation Fund	24	204	288
Fuel Clause Recovery Account	4,088	2,283	631

The TSF was established to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. In order to curb the increase in the basic tariff for 2016, a transfer of \$181 million was made from the TSF resulting in a reduced balance of \$24 million as at end 2016.

At the same time, the balance of the FCA can also be adjusted to mitigate the impact of fuel cost fluctuations on tariffs. As a result of lower-than-expected fuel costs (\$3,105 million) in 2016, the FCA recorded a balance of \$4,088 million as at end 2016, and was able to provide a special fuel rebate of 17.9 cents per unit of electricity in 2017.

4.4. Operations Overview

Electricity sales in 2016 declined slightly by 0.8% as a result of conservation efforts across the community though the number of customers recorded a slight increase to about 575,000. All operating parameters such as system maximum demand, annual load factor, thermal efficiency, plant availability and number of employees, etc. remained stable.

5-year Operating Statistics

	2016	2015	2014	2013	2012
Units sold (millions of kWh)					
Commercial	7,893	8,012	8,015	8,011	8,164
Residential	2,584	2,541	2,610	2,437	2,541
Industrial	315	326	330	325	331
Total (millions of kWh)	10,792	10,879	10,955	10,773	11,036
Annual increase/(decrease) (%)	(0.8)	(0.7)	1.7	(2.4)	1.3
Average Net Tariff under Tariff Review (HK cents per kWh)					
Basic Tariff	105.5	102.6	101.8	94.7	94.1
Fuel Clause Charge	27.9	32.3	33.1	40.2	37.0
Net Tariff (HK cents per kWh)	133.4	134.9	134.9	134.9	131.1
Number of customers (000's)	575	572	570	569	567
Installed Capacity (MW)					
Gas turbines and standby units	555	555	555	555	555
Coal-fired units	2,500	2,500	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)	3,737	3,737	3,737	3,737	3,737
System maximum demand (MW)	2,428	2,427	2,460	2,453	2,494
Annual load factor (%)	56.7	57.3	56.9	56.1	56.6
Thermal efficiency (%)	35.9	36.2	36.1	36.3	36.0
Plant availability (%)	85.6	85.5	88.4	85.7	84.6
Number of switching stations	24	24	24	24	25
Number of zone substations	27	27	27	27	27
Number of consumer substations	3,848	3,818	3,793	3,776	3,755
Number of employees	1,790	1,801	1,814	1,826	1,820