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經濟發展及勞工局
香港下亞厘畢道
中區政府合署

ECONOMIC DEVELOPMENT AND
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By fax (fax no.: 2121 0420)

Mr Andy Lau
Clerk to Panel
LegCo Panel on Economic Services
Legislative Council
Citibank Tower
3 Garden Tower, Hong Kong

Dear Mr Lau,

Panel on Economic Services
Supplementary information requested by Hon Fred LI

Thank you for your letter of 20 December 2004.

Please find at Annex our reply to the questions raised by Hon Fred LI.

Yours sincerely,

(Ms Brenda Cheng)
for Secretary for Economic Development and Labour

1. **The average tariff increase by The Hongkong Electric Company Limited (HEC) is 6.5%, representing an average tariff of $1.1 per unit, whilst the tariff of CLP Power Hong Kong Limited (CLP) will be frozen at an average of $0.875 per unit, thus, there is a difference of $0.225 between the two. What are the respective differences between the average tariffs of domestic and non-domestic customers of the two power companies? What are the detailed reasons for the differences?**

   The average tariffs of domestic and non-domestic customers of HEC in 2005 are $1.013/unit and $1.124/unit respectively, while those for CLP are $0.903/unit and $0.865/unit respectively.

   The differences in the tariffs of the two companies are attributable to various factors, including inter alia,

   (i) client profile - the number, mix and consumption patterns of customers;

   (ii) sales levels and availability of non-local electricity sales, which affects economies of scale; and

   (iii) modes of operation such as types of facilities in generation, transmission and distribution, fuel types and fuel mix.

2. **In 2003, HEC had a total electricity sales of $11.25 billion and a net profit of $6.05 billion, representing a return rate of 53.7%. According to the financial information of CLP's Scheme of Control operation, it had a total electricity sales of $25.67 billion last year and a net profit of $8.35 billion, representing a return rate of 32.5%. The return on equity (ROEs) of the two power companies were 50% and 30% respectively. Has the Government studied the approximate range of the ROEs of the power companies in other advanced countries and regions? How do these ratios compare with those of the two power companies?**

   The returns on equity of HEC and CLP in 2003, calculated as a percentage of the net return under the Scheme of Control businesses on average equity, are provided below:

2003	HEC	CLP
Net return ($M)	5,982	8,351
Average equity ($M)	24,970	31,237
Return on equity (%)	**24.0**	**26.7**

Direct comparison of rates of return for electric utilities in different economies would be very difficult owing to various factors, such as

- difference in business ownership, which affects target rate of return and the equity and debt makeup in financing;
- different market structure, which affects the business makeup of the utility and earnings of individual business segments of the utility;
- business diversification, as other businesses such as gas supply and telecommunication services may also be operated by the same company; and
- different economic regulatory regime, as the permitted return and the actual return could be quite different for different regimes.

3. Did the respective forecasts on electricity consumption of the two power companies for the past three years in line with the actual electricity consumption? What are the forecasts on electricity consumption of the two power companies for the next three years?

HEC's actual electricity sales growth for the past three years were lower than their forecasts. Their projected sales growth is about 2%-4% per annum in the medium term.

CLP Power's electricity sales growth has been largely consistent with their forecasts over the past few years. Their projected sales growth is about 2%-3% per annum in the medium term.

4. What are the respective reserve margins of the two power companies at present? What are the respective forecast reserve margins of the two power companies for the next three years?

The reserve margin of HEC in 2004 is 32% while that for CLP is 31%. Both HEC and CLP estimate that their reserve margins will be maintained at similar levels in the next three years.

5. HEC's "Fuel Clause Account" has a debit balance of around $1.15 billion, which is not covered by the tariff increase of 6.5% next year. Does HEC expect to recover the debit balance before 2008? Will HEC increase electricity tariff next year as a result?

In late 2002, the Government accepted HEC's proposal to defer the recovery of the Fuel Clause Account deficit to beyond 2004 to be completed before the expiry of the current SCA in 2008, in order to alleviate the burden on consumers. This arrangement contributed to the tariff freeze in 2003.

In accordance with the Scheme of Control Agreement, a review of the electricity tariff for 2006 will be conducted jointly by the Government and HEC at the end of this year. In considering the 2006 electricity tariff, we will take into account various factors including the forecast electricity demand and sales, operating costs of the company, capital expenditure to ensure reliable, stable and safe supply, measures to control costs and enhance productivity, shareholders' return, latest balance in the Development Fund and the Fuel Clause Account, and affordability of customers. It is inappropriate to project the 2006 tariff at this stage.