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Hongkong Electric Finds Drastic Reduction in Rate of Return Unacceptable

Hongkong Electric today rejected the Government's suggestion to drastically reduce the rate of return (ROR) for power companies, reasoning that the move would dampen investment incentives and jeopardize the future development of the electricity market in Hong Kong.

The Managing Director of the Hongkong Electric Company Limited (HEC), Mr. Tso Kai-sum, said HEC would not accept the lowering of the ROR to 7 – 11% as proposed unilaterally in the Stage II consultation paper released by the Government today. He noted that no justifications were provided, nor were explanations given to substantiate the suggestion.

"Power supply reliability will suffer in the absence of sufficient incentive to invest, leading to serious consequences," Mr. Tso explained, adding that the experiences of other countries have shown that under-investment leads to deficiencies in infrastructure and power blackouts, posing a huge cost to society and the economy.

He said that HEC has been providing safe, adequate and reliable electricity to support Hong Kong's economic growth. "We are prepared to work with the Government to achieve its policy objectives, but the overriding principle must be to continue to balance the interests of customers and shareholders while ensuring an adequate and reliable supply of electricity."

On other recommendations contained in the document, such as shortening the duration of the bilateral agreement and asset classification, Mr. Tso said the Company would evaluate these in detail. "Market review is a complex exercise involving a great number of intertwining issues. We will study the consultation paper in depth before submitting our views to Government. In the meantime, we will remain in close contact with our stakeholders," Mr. Tso added.

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