

LCQ 14: Accounting method of HEC

Following is the question by the Hon Fred Li and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (April 30):

Question :

The annual financial statements of the Hong Kong Electric Company Limited (HEC) for the year 2002 disclose that HEC has adopted a new approach in the recognition of income from electricity sales. Under the new approach, income is recognized on the basis of units of electricity consumed by customers, instead of the total electricity sold as recorded on all meters, during the year. As the earnings of HEC are regulated by the Government under a Scheme of Control, will the Government inform this Council of:

(a) the application details of the new approach, with illustrations by specific examples; a comparison of HEC's electricity sales and income last year based respectively on the new and old recognition approaches; and

(b) the rationale for HEC's adopting the new approach, and whether the Government has been consulted or notified in advance; if not, whether and how it will follow up?

Reply :

Madam President,

The financial year of The Hongkong Electric Co., Ltd. (HEC) runs from January 1 to December 31. Prior to 2002, all items in HEC's financial statement, except for income derived from electricity sales, were accounted for on a financial year basis. Electricity sales were taken on the basis of meter readings. Since meter readings for different customers are taken on different dates (for example, some at the beginning, some in the middle, while others at the end of the month), the HEC took mid-December as the cut-off point for electricity sales for their annual account. The data in the relevant account therefore reflected income derived from electricity sales during the period from mid-December of the previous year to mid-December of the financial year in question. This means that electricity sales and income recorded after mid-December were included in the account of the subsequent financial year.

As from 2002, HEC takes December 31 as the cut-off date for recognition of income derived from electricity sales. That is to say, electricity sales and income in a financial year henceforth reflect the electricity consumed by customers in that year.

Applying the accounting methods adopted prior to and as from 2002, HEC's electricity sales and income in 2002 are as follows:

	Electricity	Electricity
	Electricity	Sales
	Sales	Income
	kWh in Billion	\$ Billion
Using the pre-2002 accounting method		
Mid-December 2001		
to Mid-December 2002	10.375	11.234
If using the 2002 accounting method		
January 1		
to December 31, 2002	10.381	11.244
Data reflected in the 2002 accounts (Note)		
Mid-December		
to December 31, 2001	0.261	0.276

January 1

to December 31, 2002	10.381	11.244
	-----	-----
	10.642	11.520

Note :

Since electricity sales and income for the period from mid-December to December 31, 2001 have not been accounted for in the Company's financial statement, the HEC has included the sales and income, totalling approximately 0.26 billion kWh (i.e. of around \$0.28 billion), in the Company's 2002 accounts on a one-off basis. That is to say, the 2002 accounts for this item covers about twelve and a half months. This arrangement has the effect of relieving pressure for upward adjustment of the 2003 tariff. Accounts for this item from 2003 onwards will cover 12 months in HEC's financial year, as for other items in the Company's financial statement.

HEC's revised accounting arrangement, which reflects electricity sales and income in the account of that year and uses identical period for all items included in the Company's financial statement, complies with the accounting standards promulgated by the Hong Kong Society of Accountants. HEC has informed the Government prior to the change in its accounting method.

End/ Wednesday, April 30, 2003