8 Public Non-Financial Corporations Sector

Features

- The Queensland Government expects its businesses to operate commercially and efficiently and improve services to Queenslanders.
- The Government is supporting $3.496 billion of infrastructure investment through the Public Non-financial Corporations Sector in 2019-20. This includes $2.234 billion on electricity infrastructure, $261.7 million on water infrastructure, $337.4 million on port infrastructure and $638.6 million on rail infrastructure.
- The Public Non-financial Corporations Sector is forecast to generate dividends of $1.365 billion in 2019-20. Importantly, dividends generated by the government-owned corporations (GOCs) are used to fund vital services for Queensland, such as public hospitals, schools and police.
- The Government has delivered on key energy policy reforms including the establishment of a new clean energy government-owned corporation, CleanCo Queensland Limited (CleanCo). CleanCo will put ongoing downward pressure on electricity prices, as well as growing investment and jobs in the renewable energy sector. The Government will invest $250 million over 2019-20 and 2020-21 to develop new, public renewable energy generation assets.
- Government has taken action to put downward pressure on wholesale prices and the establishment of CleanCo will create an even more competitive market. Other initiatives include continuing to remove the costs of the Solar Bonus Scheme from customer bills in 2019-20. Queensland wholesale spot prices remained the lowest in the National Energy Market over the past two summers. The Queensland Competition Authority's Final Determination for Regulated Retail Electricity Prices estimates prices in regional Queensland will fall by 4.4 per cent in 2019-20 for the typical household bill, with prices in South East Queensland also expected to fall.
- Energy Queensland Limited has submitted its regulatory proposals for the new regulatory control period 2020-25, through which the Australian Energy Regulator will determine allowable revenues for the business.
- In 2019-20, Queensland Rail will work in partnership with the Department of Transport and Main Roads to ensure operational readiness for introduction of major new infrastructure including Cross River Rail and the European Train Control System. Queensland Rail will also progress a new subsidy for below rail users of Queensland Rail's Mount Isa Line.
- The government-owned port corporations will continue to progress key projects in 2019-20 across the State. This includes progressing delivery of the Cairns Shipping Development Project and the Channel Capacity Upgrade project at the Port of Townsville, progressing the detailed business case and seeking approvals to commence works on the Clinton

Vessel Interaction Project, and progressing construction and operation of containerised freight loading and unloading facilities at the Port of Townsville, subject to a business case.

- Progressing the Rookwood Weir project presents an opportunity to supplement urban water supplies and enhance agricultural and industrial development in the Fitzroy Basin and Gladstone region. The Queensland and Australian Government have agreed to work in partnership to deliver the project. In parallel, Sunwater has progressed preparatory works, with early works for the project expected to commence in the second half of 2019.
- In order to deliver budget sustainability and optimal performance of the State's GOCs, savings targets for GOCs have been factored into the 2019-20 State Budget. These savings targets, which will realise over $840 million over the forward estimates period, will be reinvested into this sector to deliver a more sustainable business model. GOC proposals for reinvestment will be subject to shareholding Minister approval and will be subject to stringent assessment. Consistent with Government's employment security policy there will be no forced redundancies in realising these targets.

8.1 Context

Several industries are covered by the Public Non-financial Corporations (PNFC) Sector, including energy, rail, ports and water. Queensland's government-owned corporations (GOCs), declared by regulation to be GOCs under the *Government Owned Corporations Act 1993* (GOC Act), make up a large part of the PNFC Sector. Also included in the sector are non-GOC entities, the Queensland Bulk Water Supply Authority (trading as Seqwater), Queensland Rail, local water boards and other public corporations.

GOCs are accountable for their financial performance and are required to be commercial and efficient organisations. These requirements are legislated under the GOC Act.

PNFC Sector entities provide services or commodities like other businesses. The entities incur costs and bear commercial risks in the delivery of their services or products and generate revenue from the sale of these services or products. The aim of these entities is to deliver vital services while achieving a commercial rate of return for the Government.

The returns to Government are used to pay for important community services such as hospitals, education and concession payments. In some cases, part of a PNFC entity's revenue may arise from community service obligation (CSO) payments from the Government. These payments are used to subsidise a service or commodity provided by the entity, and allow it to be provided to the community at a lower price than it would be on a purely commercial basis. A key example of this is the CSO paid to Energy Queensland Limited to provide electricity in regional Queensland at prices based on the costs of supply in South East Queensland, in accordance with the Government's Uniform Tariff Policy. This ensures that electricity prices in regional Queensland are much lower than would otherwise be the case.

8.1.1 Electricity Networks

The Government owns two electricity network businesses that are responsible for transmitting safe, reliable electricity to consumers across the State – Powerlink and Energy Queensland Limited (EQL).

Powerlink

Powerlink owns, develops, operates and maintains the electricity transmission network in Queensland. Its network runs approximately 1,700 kilometres from north of Cairns to New South Wales. Powerlink’s role in the electricity supply chain is to transmit high voltage electricity – generated at major power stations – through its transmission grid to the distribution networks.

Powerlink also transmits electricity to high usage industrial customers such as rail companies, mines and mineral processing facilities, and to New South Wales via the Queensland/New South Wales interconnector transmission line.

Energy Queensland Limited

On 30 June 2016, Energex and Ergon Energy were merged under the parent company, EQL. EQL owns and operates the low-voltage distribution network that transmits electricity from Powerlink’s transmission network and distributes it to households and businesses across Queensland. Ergon Energy Network provides the distribution network in regional Queensland and Ergon Energy Retail offers its customers retail services in regional Queensland. Energex provides distribution network services to customers within South East Queensland.

EQL, through its subsidiary Yurika, is also involved in a range of other service delivery functions including demand management services, large-scale connections, microgrid solutions, the provision of contestable metering services and telecommunications infrastructure. Yurika is focused on pursuing strategic investments in unregulated markets to provide greater choice to customers and provide EQL an enhanced ability to respond to emerging trends.

When the Government announced the merger of Energex and Ergon Energy under EQL, it was estimated that through the merger and other efficiencies, savings of $562 million were to be generated over five years. These savings will deliver benefits to both Government and electricity consumers, through improved returns from the business, and by putting downward pressure on electricity prices. EQL is on track to exceed its savings target by 2019-20, with forecast total savings of $644 million.

Network Revenues

Revenues for the network businesses are largely derived from network services that are regulated by the Australian Energy Regulator (AER). The AER determines these revenues on a five-yearly basis, based on the businesses’ proposals and its view of the reasonable benchmark efficient costs for a network business.

The AER published Powerlink's revenue determination in April 2017 for the 2017-22 regulatory control period, which resulted in a significant reduction in allowable revenues for the business. In January 2019, the Energex and Ergon Energy businesses submitted to the AER their regulatory proposals for the period 1 July 2020 to 30 June 2025. EQL will continue to consult with stakeholders and revise its regulatory proposals over 2019, with revised submissions due to the AER in December 2019, ahead of the AER's final determination in April 2020.

8.1.2 Electricity Generation

Queensland is in a strong position to deliver reliable and affordable energy through publicly owned baseload and renewable generation capacity.

Queensland had the lowest wholesale market spot prices over the past two summers and forward wholesale prices in Queensland remain the lowest in the National Electricity Market (NEM).

Queensland continues to operate Australia's youngest and most efficient fleet of coal-fired generators, safeguarding jobs in traditional industries as well as a growing industry of large-scale renewable projects. This will be supported into the future by CleanCo, the State's new clean energy GOC.

CleanCo will encourage competition in the energy sector ensuring that downward pressure on electricity prices is maintained. CleanCo will play a key role in delivering the Government's 50% Queensland Renewable Energy Target by 2030.

CleanCo

In December 2018, CleanCo was established as the third energy generation GOC with the appointment of the inaugural Board. CleanCo will be transferred the ownership, title and dispatch rights of a specified and strategic portfolio of low and no emission generation assets from CS Energy and Stanwell in 2019-20. CleanCo will add to its foundation portfolio, including through building, owning and operating new renewable energy generation assets under its mandate to support the development of 1,000 megawatts (MW) of new renewable energy generation by 2025.

CS Energy

CS Energy is a major provider of energy into the NEM. In addition to owning and operating power stations, CS Energy is also a party to the Gladstone Interconnection and Power Pooling Agreement, which entitles it to trade the output of the Gladstone Power Station that exceeds the requirements of the Boyne Island aluminium smelter.

Stanwell

Stanwell is a significant provider of energy into the NEM, with Queensland's largest portfolio of power stations. Stanwell also sells electricity directly to large commercial and industrial customers in Queensland, New South Wales, the Australian Capital Territory and Victoria.

Box 8.1 Clean Energy Leader

The Government is committed to reaching its 50 per cent Queensland Renewable Energy Target (QRET) by 2030.

As part of the Powering Queensland Plan (PQP), the Government committed to investigate the creation of a clean energy generation GOC. In August 2018, the Government endorsed its establishment and CleanCo was established as the State's new renewable electricity generator GOC in December 2018.

CleanCo is a structural solution to increase competition in the wholesale electricity market. This will drive down wholesale electricity prices, delivering cheaper energy to Queensland households and businesses. CleanCo builds on Government's reforms to secure a cleaner, affordable, sustainable and reliable energy supply for Queensland. These plans have worked, as Queensland had the lowest wholesale market spot prices over the past two summers.

CleanCo will have a strategic portfolio of low and no emission power generation assets when it is transferred ownership and dispatch rights to a foundation portfolio of existing government-owned renewable and low emission energy generation assets including the Wivenhoe pumped storage hydro plant, Swanbank E, Barron Gorge, Kareeya and Koombooloomba power stations. CleanCo will add to its foundation portfolio, including through building, owning and operating new renewable energy generation assets. This is supported through an initial funding allocation of $250 million over 2019-20 and 2020-21.

Queensland's ownership of its assets means its businesses can be run for the benefit of Queenslanders, not just for profit. The PQP and Affordable Energy Plan have reformed the market and given direct price benefits to Queensland consumers. For instance, the Government is continuing to remove the costs of the Solar Bonus Scheme from customer bills over 2019-20.

Queensland has experienced significant growth in the renewable energy sector in recent years with over 1,500 MW of projects having commenced operations. These projects have brought over $3.1 billion worth of investment and delivered over 3,200 construction jobs. A further $800 million worth of projects are under construction or committed and are set to deliver another 1,000 MW of generation capacity by the end of 2019. These works will generate over 820 construction jobs, and put Queensland on track to achieve the 50 per cent QRET by 2030.

8.1.3 Rail

Queensland Rail is an integrated, publicly-owned rail operator, responsible for the delivery of passenger transport in South East Queensland, long distance passenger services in rural and regional Queensland and provision of third party access to networks for freight transport across the state.

The majority of Queensland Rail’s services are delivered under a Rail Transport Services Contract (TSC) with the Government, represented by the Department of Transport and Main Roads. The Rail TSC provides funding for rail infrastructure, Citytrain (South East Queensland passenger services) and Traveltrain (regional passenger services).

In 2019-20, Queensland Rail will work in partnership with the Department of Transport and Main Roads to ensure operational readiness for introduction of major new infrastructure including Cross River Rail and the European Train Control System. Queensland Rail will also progress a new subsidy for below rail users of Queensland Rail’s Mount Isa Line.

8.1.4 Ports

Queensland has a large network of ports along its coastline, ranging from small installations serving local communities to large, world class multi-user and multi-cargo ports, which have public and privately-owned import and export facilities. Apart from the Port of Brisbane, the port authorities responsible for all of Queensland’s ports are owned and run by GOCs. Queensland’s ports are a major component of the State’s supply chain networks and economy, and their efficient and profitable operation is essential to continued economic growth, job creation, and sustainable development in the State.

The port sector’s financial performance is influenced by various factors including supply chain expansions and disruptions, evolving transportation methods and the condition of the Queensland and global economies, particularly demand abroad for Queensland’s natural resources and agricultural products. Queensland ports continue to look to enhance supply chain efficiency and identify new markets to improve financial outcomes and stimulate the economy, while meeting environmental and community obligations.

Key projects for the port GOCs in 2019-20 include progressing:

- construction and operation of containerised freight loading and unloading facilities at the Port of Townsville, subject to a business case
- delivery of the Cairns Shipping Development Project
- delivery of the Channel Capacity Upgrade project at the Port of Townsville
- works for Berth 4 upgrades at the Port of Townsville
- works for Tug Berth upgrades at the Port of Mackay
- the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project at the Port of Gladstone.

Cairns Shipping Development Project

The Cairns Shipping Development Project is a $127 million port expansion project involving the deepening and widening of the Trinity Inlet shipping channel at the Port of Cairns, to allow larger cruise ships to pass through to the port. The project will promote expansion of the cruise shipping industry in Cairns and economic activity in the wider North Queensland region. The State is contributing $60 million of the project cost, with the remainder to be funded by Ports North.

Significant steps have been taken throughout 2018-19 to progress this project, including the receipt of all council, State and Federal environmental approvals, and investment approval by shareholding Ministers. Construction works in preparation for dredging parts of the channel and ship swing basins have commenced, with upgrades to wharf areas scheduled to begin later in 2019. The project is due for completion in 2020-21.

8.1.5 Water

The two largest entities in the Queensland bulk water market are the Queensland Bulk Water Supply Authority (trading as Seqwater) and Sunwater Limited (Sunwater).

Seqwater

Seqwater is responsible for supplying safe, secure and reliable bulk drinking water for people across South East Queensland. Its assets and operations spread across a large geographic area from the New South Wales border, to the base of the Toowoomba ranges and as far north as Gympie. Seqwater provides essential flood mitigation services and manages seven water supply schemes which provide irrigation services.

Dams play a vital role in the South East Queensland water supply. Seqwater has an ongoing Dam Improvement Program (DIP) to ensure the safety of its dams and compliance with dam safety guidelines into the future.

Key projects for Seqwater in 2019-20 include:

- progressing planning for the Lake Macdonald Dam Upgrade
- progressing planning for the Somerset Dam Upgrade
- commencing construction on the Ewen Maddock Dam Upgrade.

As a result of extended hot and dry periods over the 2018-19 summer and the South East Queensland drinking water storage reaching 68% in early June 2019, Seqwater is preparing for a drought readiness phase.

Sunwater

Sunwater is the Government's major bulk water supply business for all regions outside of South East Queensland. It supplies untreated bulk water to approximately 5,000 customers across the industrial, mining, urban and irrigation customer segments. Sunwater provides this through an extensive regional asset base, owning and managing water infrastructure assets with a replacement value of around $13 billion.

Dam safety is a major focus for Sunwater as it is for all bulk water suppliers. Sunwater commenced a prioritised DIP in 2005 to ensure that dam safety is maintained. The DIP is regularly reviewed to ensure highest priority projects are addressed first.

The DIP is an essential program to ensure the safety and stability of dams and the ongoing safety of downstream communities, and Sunwater must undertake dam safety work to meet its obligations under Queensland dam safety regulations. However, it is also likely to significantly influence Sunwater's financial performance and net flows to the Government over the forward estimates period and beyond.

Key projects for Sunwater in 2019-20 include:

- progressing construction on Fairbairn Dam spillway improvements to enhance the dam to meet future extreme weather events
- progressing planning for Paradise Dam spillway improvements to enhance the spillway to meet future extreme weather events
- progressing planning for Leslie Dam to enhance the dam to meet future extreme weather events
- progressing planning for Burdekin Falls Dam spillway improvements to enhance the spillway to meet future extreme weather events
- continuing feasibility studies into potentially raising Burdekin Falls Dam.

Box 8.2 Rookwood Weir

Progressing the Rookwood Weir project presents an opportunity to supplement urban water supplies and enhance agricultural and industrial development in the Fitzroy Basin and Gladstone region. The weir could add up to 76,000 megalitres of water for agricultural production along the Fitzroy River, as well as an eventual back-up supply for Gladstone, Rockhampton and Livingstone Shire. The project is also expected to create 100 jobs in regional Queensland during construction.

Significant steps have been taken throughout the year toward the construction of Rookwood Weir. The Queensland and Australian Government have agreed to work in partnership to deliver the project. In parallel, Sunwater has progressed preparatory works, with early works for the project expected to commence in the second half of 2019.

8.2 Finances and Performance

8.2.1 Earnings Before Interest and Tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2018-19 are estimated to be $4.501 billion, up from $3.976 billion forecast at the time of the 2018-19 State Budget. This increase is primarily due to increases in the electricity generation sector, driven primarily by non-operating revenue flowing from the valuation of a favourable coal supply agreement, higher than forecast wholesale energy market prices and coal rebate revenue.

Over the forward estimates, PNFC Sector EBIT is expected to decrease to $3.077 billion in 2021-22. While EBIT is forecast to increase to $3.305 billion in 2022-23 it remains significantly less than in 2018-19.

Relative to 2018-19, EBIT in the electricity sector is estimated to fall by 22% in 2019-20 and 31% in 2022-23. The decrease in electricity generation EBIT is primarily driven by forecast reductions in wholesale generation revenues as new renewable entrants (including CleanCo) enter the wholesale market, adding increased competition and driving down wholesale prices. While electricity generation EBIT is forecast to increase from 2021-22 to 2022-23 due to higher wholesale prices following the expected closure of the Liddell Power Station in New South Wales, it remains significantly less than in 2018-19.

Movements in electricity network EBIT over the forward estimates is influenced by forecasts of regulatory revenue collections for the network businesses. Electricity network EBIT is expected to fall from $1.991 billion in 2018-19 to $1.443 billion in 2020-21. Electricity network EBIT is then expected to increase to $1.648 billion in 2022-23 but remains significantly less than in 2018-19. These movements are consistent with EQL's new regulatory proposals for the period of 1 July 2020 to 30 June 2025.

Water sector EBIT is expected to reach $586 million in 2020-21, largely reflecting the upwards trend associated with the South East Queensland bulk water price path. Water sector EBIT is forecast to decline from 2021-22 in recognition of the increased spend by Sunwater associated with the DIP, some of which needs to be expensed.

Port sector EBIT is expected to trend steadily upwards over the forward estimates, driven by increased activity and forecast increased tonnage volumes.

Table 8.1 Earnings before interest and tax[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	2,198	1,899	1,991	1,850	1,443	1,592	1,648
Electricity Generation	1,194	1,009	1,442	830	661	551	722
Rail	323	325	301	244	278	305	305
Ports	191	203	202	212	236	242	260
Water	499	556	562	571	586	419	403
Other[2]	21	(16)	2	(34)	(30)	(32)	(33)
Total PNFC Sector	**4,425**	**3,976**	**4,501**	**3,672**	**3,174**	**3,077**	**3,305**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts. GOC savings targets are not included as allocations across the GOCs are yet to be determined.
2. Includes other public corporations.

8.2.2 Borrowings

Entities in the PNFC Sector utilise debt financing as a source of funds for asset renewal and capital investments, and to maintain an optimum capital structure.

PNFC Sector entities are required to take a prudent and sound approach to the management of debt, including the establishment of borrowing arrangements which are appropriate to the business risk of the organisation. These arrangements consider the appropriateness of the proposed capital expenditure program, together with the implications of the borrowings for key financial and performance related indicators.

Total forecast PNFC Sector borrowings for 2018-19 are estimated to be $38.757 billion. Forecast borrowings are expected to increase to $41.042 billion by 2022-23. The increase in borrowings over the forward estimates is primarily driven by the electricity network and rail businesses.

Electricity network borrowings are forecast to increase over the forward estimates in line with growth in the regulated asset base. Rail sector borrowings are expected to increase in line with the Queensland Rail capital program.

Port sector borrowings are forecast to increase to $1.193 billion by 2022-23. The increase in borrowing is to fund new capital works and infrastructure projects primarily at the Port of Townsville and Ports North.

Borrowings in the water sector are largely attributable to Seqwater, which currently holds $9.425 billion of debt. The debt balance was the result of the large investment in water infrastructure in response to the Millennium Drought and the associated price path. Seqwater's forecast borrowings reduce across the forward estimates.

The gearing levels of all GOCs continue to be monitored to ensure that they maintain metrics that are at a minimum consistent with an investment grade credit rating.

Table 8.2 Borrowings[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	21,692	22,252	22,172	23,073	23,670	23,802	23,855
Electricity Generation	1,761	1,602	1,941	1,831	1,790	1,780	1,750
Rail	3,393	3,617	3,505	3,852	4,214	4,581	4,712
Ports	1,061	1,086	1,071	1,173	1,216	1,219	1,193
Water	9,984	10,005	9,984	9,981	9,977	9,724	9,482
Other[2]	102	(2)	85	77	68	59	49
Total PNFC Sector	**37,992**	**38,560**	**38,757**	**39,987**	**40,934**	**41,165**	**41,042**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. Includes other public corporations.

8.2.3 Returns to Government

PNFC Sector entities provide returns to Government by way of dividends and tax equivalent payments.

Dividends

A GOC's dividend policy is agreed with shareholding Ministers as part of the Statement of Corporate Intent for the relevant period. A Statement of Corporate Intent represents a performance contract between the shareholding Ministers and a GOC board, with the board being accountable to shareholding Ministers for meeting financial and non-financial performance targets and delivering on the outcomes detailed in the Statement of Corporate Intent.

When establishing the dividend policy for the period, GOC boards are expected to ensure it considers the return shareholders expect on their investments and the levels of equity required to maintain a preferred capital structure. The final dividend payment is determined in accordance with the GOC Act.

Total forecast PNFC Sector dividends for 2018-19 are expected to be more than $200 million (or 11%) less than in 2017-18. This is driven by a reduction of $280 million in dividends from the electricity network businesses, substantially driven by lower electricity retail and network charges compared to 2017-18.

Importantly, the Government uses GOC dividend returns to help fund vital services for Queensland, such as public hospitals, schools and police, as well as investing in initiatives to reduce energy costs for Queenslanders. The PQP and Affordable Energy Plan have reformed the market and given direct price benefits to Queensland consumers. For instance, the Government is continuing to remove the costs of the Solar Bonus Scheme from customer bills over 2019-20.

Lower profits from the GOC sector across the forward estimates are translating into lower dividends. Relative to 2018-19, dividends are forecast to fall by 17% by 2019-20 and by 43% by 2020-21. PNFC Sector dividends are projected to decrease to $932 million in 2020-21 before increasing to $1.046 billion in 2022-23 (still 36 per cent less than in 2018-19). This reduction is being driven by the electricity sector, with electricity dividends almost halving across the forward estimates.

Electricity network dividends are expected to drop from $695 million in 2018-19 to $596 million in 2019-20, and further decline to $297 million in 2020-21. Movements in electricity network dividends are influenced by forecasts of regulatory revenue collections for the network businesses.

Electricity generation dividends are expected to decline until 2021-22 in line with the reduction in generation earnings as renewable generation alternatives enter the market. In 2022-23, electricity generation dividends increase due to higher forecast wholesale prices following the expected closure of the Liddell Power Station in New South Wales.

Competitive pressures are translating into lower electricity prices, with the Queensland Competition Authority's Final Determination for Regulated Retail Electricity Prices estimating prices in regional Queensland will fall by 4.4% in 2019-20 for the typical household bill, with prices in South East Queensland also expected to fall.

The decline in water sector dividends across the forward estimates reflects the increased costs associated with Sunwater's DIP, to ensure the safety and stability of dams and the ongoing safety of downstream communities. For example, in 2019-20 Sunwater is progressing construction on Fairbairn Dam spillway improvements to enhance the dam to meet future extreme weather events.

Table 8.3 Dividends[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	976	618	695	596	297	381	406
Electricity Generation	620	535	657	519	368	301	374
Rail	112	134	139	102	127	137	129
Ports	83	94	90	102	116	119	131
Water	48	55	52	45	23	6	6
Other[2]	10	..	10	..	..	..	..
Total PNFC Sector	**1,849**	**1,435**	**1,643**	**1,365**	**932**	**944**	**1,046**

Notes:

1. Numbers may not add due to rounding.
2. Includes other public corporations.

Tax Equivalent Payments

Tax equivalent payments (TEPs) are paid by the PNFC Sector entities to recognise the benefits derived because they are not liable to pay Australian Government tax. The primary objective of the payment is to promote competitive neutrality, through a uniform application of income tax laws between the government-owned entities and their privately held counterparts.

As TEPs generally move in line with earnings, TEPs are forecast to decrease from $882 million in 2018-19 to $541 million by 2021-22, then increase to $576 million in 2022-23.

Table 8.4 Tax equivalent payments[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	442	290	331	371	245	278	286
Electricity Generation	321	236	421	234	203	171	204
Rail	36	47	52	48	26	21	11
Ports	40	51	52	54	63	63	67
Water	24	3	20	8	8	3	4
Other[2]	3	5	5	5	5	5	5
Total PNFC Sector	**866**	**630**	**882**	**720**	**549**	**541**	**576**

Notes:

1. Numbers may not add due to rounding.
2. Includes other public corporations.

Competitive Neutrality Fees

In accordance with the National Competition Policy principles, GOCs are expected to operate on the basis that they do not experience significant advantages or disadvantages by virtue of their Government ownership. One of the most significant advantages available to GOCs is the ability to borrow funds at a lower rate than private sector competitors on the basis of the State Government's credit strength.

In order to account for this advantage, the Competition Principles Agreement requires a notional charge to be applied to a GOC's cost of debt. A competitive neutrality fee (CNF) is thus applied to all borrowings and financial arrangements in the nature of debt obligations. In general, changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand-alone credit rating.

Total forecast PNFC Sector CNF payments for 2018-19 are estimated to be $154 million, $4 million higher than the $150 million forecast in the 2018-19 State Budget. CNF payments are forecast to increase to $225 million by 2022-23.

Table 8.5 Competitive neutrality fee payments[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	67	84	89	106	125	145	157
Electricity Generation	20	17	17	17	17	18	17
Rail	34	32	32	30	30	33	35
Ports	11	11	11	12	12	12	12
Water	5	5	5	5	5	5	5
Total PNFC Sector	**138**	**150**	**154**	**169**	**189**	**212**	**225**

Note:

1. Numbers may not add due to rounding.

8.2.4 Community Service Obligation and Rail Transport Services Contract Payments

The Government sometimes directs or requires its businesses to perform activities that are not in the entity's commercial interest (for example, offering services at a reduced price to benefit the community). In these situations, the Government will often provide a Community Service Obligation (CSO) payment to the entity for the cost of delivering the service.

Transport Services Contract (TSC) payments are made to Queensland Rail to provide rail passenger services at non-commercial (subsidised) prices for the commuter and tourism markets.

In line with the Queensland Government's Uniform Tariff Policy, a CSO payment is provided to EQL to compensate the retail subsidiary for the increased costs of operating in regional Queensland. This subsidy is provided to ensure that Queenslanders, regardless of their geographic location, pay a similar price for their electricity.

Seqwater and Sunwater own and operate water supply schemes, where irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to irrigators. The Government provides a CSO to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Total forecast PNFC Sector CSO and TSC payments for 2018-19 are estimated to be $2.270 billion, equal to the $2.270 billion forecast at the time of the 2018-19 State Budget.

In 2019-20, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of $2.309 billion. This is forecast to increase to $2.436 billion by 2022-23, largely driven by the TSC. The increase in the TSC is due to a mix of factors such as changes in patronage, escalation of service delivery costs and forecast growth in services.

Water CSOs are forecast to reduce reflecting the inclusion of current Government approved amounts only. In future years, further approval processes will be undertaken for those elements which are not currently included but are expected to continue into the future.

Table 8.6 Community service obligation payments and Transport Services Contracts[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	478	462	462	498	421	437	422
Rail	1,646	1,797	1,797	1,801	1,882	1,964	2,014
Water	11	11	10	10	7	7	..
Total PNFC Sector	**2,136**	**2,270**	**2,270**	**2,309**	**2,310**	**2,408**	**2,436**

Note:

1. Numbers may not add due to rounding.

8.2.5 Equity Movements

The levels and weightings of GOC debt and equity are managed by the Government to maintain an optimal and efficient capital structure. Corporations may have different target capital structures for different business entities or to support expected capital programs and projects.

Total forecast PNFC Sector equity movements for 2018-19 are estimated to be an increase of $492 million.

Equity movements across the forward estimates are primarily influenced by the electricity networks sector. These equity movements reflect changes to ensure an efficient level of gearing is maintained for EQL and Powerlink.

Over the forward estimates, CleanCo will receive $180 million initial equity funding as well as $250 million to build, own and operate a renewable energy project, pending a business case. As part of the electricity generation restructure, Stanwell makes a $160 million equity return in 2018-19 and will pay a $100 million special dividend in 2019-20.

Queensland Rail will receive equity injections of $460 million in 2018-19 for the Moreton Bay Rail Link project, and $35 million in 2022-23 to support its capital program.

Over the forward estimates, Port of Townsville will receive equity injections totalling $120 million for the Channel Capacity Upgrade project and Ports North will receive $60 million for the Cairns Shipping Development Project.

In 2019-20, Stadiums Queensland will receive an equity injection of $35 million for the refurbishment of the Gabba.

In 2020-21, Sunwater will receive an equity injection of $100 million to undertake essential dam safety upgrades at Burdekin Falls Dam, which aligns with the updated timing for completion of the project's business case.

Table 8.7 Equity movements[1]

	2017-18 Actual $ million	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Electricity Networks	(50)	(110)	(74)	(106)	(130)	(439)	(311)
Electricity Generation	..	..	20	50	101	..	..
Rail	(5)	460	460	..	..	..	35
Ports	..	60	90	40	15	15	20
Water	(5)	(4)	(4)	..	100	..	..
Other[2]	2	..	..	35	..	..	..
Total PNFC Sector	**(58)**	**406**	**492**	**19**	**86**	**(424)**	**(256)**

Notes:

1. Numbers may not add due to rounding. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.
2. Includes other public corporations including Stadiums Queensland.