8 Public Non-Financial Corporations Sector

Features

- The Queensland Government businesses operate commercially and efficiently and improve services to Queenslanders.
- The Government is supporting over $3.130 billion of additional infrastructure investment through the Public Non-Financial Corporations Sector in 2018-19. This includes $2.128 billion on electricity infrastructure, $204.7 million on water infrastructure, $181.2 million on port infrastructure and $587.5 million on rail infrastructure.
- The Public Non-Financial Corporations Sector is forecast to generate dividends of $1.435 billion in 2018-19. Importantly, dividends generated by the government-owned corporations will be used to fund an Asset Ownership Dividend which provides $50 a year for every household electricity bill over 2017-18 and 2018-19. This initiative forms part of the $2 billion Affordable Energy Plan, providing cost of living relief to Queenslanders.
- The Government continues to progress core energy policy proposals including the establishment of a clean energy government-owned corporation, progressing the business case for the Burdekin Falls Hydro Power Station and the Renewables 400 auction. Alongside diversifying the State’s energy generation mix to more renewable sources, these projects will help to drive greater competition, putting downward pressure on energy prices in Queensland.
- Energy Queensland Limited is preparing for the new regulatory control period 2020-25, through which the Australian Energy Regulator will determine allowable revenues for the Ergon Energy and Energex network businesses.
- In 2018-19, Queensland Rail is implementing a number of rail projects to improve the capacity and efficiency of the network, including the New Generation Rollingstock project, North Coast Line Capacity Improvement Project and European Train Control System – Inner City.
- The government-owned port corporations will continue to progress key projects in 2018-19 across the State. This includes progressing approvals for the Cairns Shipping Development Project, progressing the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project, progressing the Gladstone Port Master Plan and progressing works for the Channel Capacity Upgrade project at the Port of Townsville.
- 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 Government and the Australian Government have both committed matching funding of $176 million ($352 million in total) to ensure the capital costs of the project are fully funded.

8.1 Context

A number of 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 (SEQ), 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 transporting safe and reliable electricity to consumers across the State - Powerlink and Energy Queensland Limited (EQL).

Powerlink

Powerlink is a high-voltage transmission network business that transports electricity long distances from generation plants to the distribution networks and connects Queensland to other states. The electricity is transmitted at high voltages so that large volumes can travel efficiently over long distances.

To ensure mandated reliability levels are maintained as demand grows, Powerlink is obligated to plan and develop the network. Powerlink's external environment has changed significantly in recent years with changes in consumer demand, market and regulatory changes, increasing complexity within the electricity market and the emergence of renewable energies and other technologies.

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 transports 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 SEQ.

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 focussed 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 reach the savings target by 2019-20.

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. On 31 October 2017, the Energex and Ergon Energy network businesses formally submitted to the AER a request to develop a replacement framework and approach to apply for the next regulatory control period 2020-25. EQL will continue to consult and develop its regulatory proposals over 2018 and 2019 for submission to the AER.

8.1.2 Electricity Generation

The National Electricity Market (NEM) continues to experience significant change. The Government has and will continue to act to ensure wholesale prices in Queensland remain affordable for customers.

The Powering Queensland Plan includes a number of measures to put downward pressure on wholesale prices, including returning Swanbank E to service, directing Stanwell to alter its bidding strategies, and investigating the establishment of a clean energy generator to boost competition.

Queensland has already seen the benefits of these initiatives, with forward wholesale prices in Queensland remaining the lowest in the NEM and Queensland having the lowest wholesale market spot prices over the recent summer despite record peak demand being exceeded.

CS Energy

CS Energy is a merchant electricity generator that sells electricity in the NEM under the *Electricity Act 1994*. CS Energy has more than 400 employees, operates three power stations and has a trading portfolio of 4,035MW. CS Energy dispatches over 30 per cent of Queensland's electricity and slightly over 10 per cent of all electricity supplied to the NEM.

CS Energy's diverse asset portfolio comprises coal-fired and hydroelectric power stations, electricity trading rights and coal assets. CS Energy owns and operates the Callide B, Kogan Creek and Wivenhoe power stations, and has a 50 per cent interest in the Callide C Power Station, where it provides operations and maintenance services. 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.

CS Energy's joint venture with Alinta Energy continues to provide SEQ customers with discounted usage charges. As at early June 2018, almost 180,000 customers have signed up with Alinta Energy. The joint venture has successfully boosted competition in SEQ with many other retailers responding with lower electricity prices.

Stanwell

Stanwell is one of Australia's largest energy providers, with a diversified portfolio of coal, gas and hydro assets totalling 4,000MW of installed capacity. It employs over 800 staff across Queensland. Stanwell dispatches over 30 per cent of Queensland's electricity and slightly over 10 per cent of all electricity supplied to the NEM.

Box 8.1 Clean Energy Leader

Queensland is in a strong position to deliver reliable, affordable energy with the right mix of baseload and renewable generation capacity. The Government is committed to reaching the 50 per cent Queensland Renewable Energy Target (QRET) by 2030 and providing a two-year cap on electricity price rises to average inflation.

Under its Powering Queensland Plan (PQP), the Government continues to ensure affordable, secure and sustainable energy supply for Queensland homes, businesses and industry. This includes continuing to remove the costs of the Solar Bonus Scheme from customer bills over 2018-19 and 2019-20.

As part of the PQP, the Government committed to investigate the creation of a clean energy generation government-owned corporation (CleanCo). CleanCo will assist in meeting the QRET by 2030, increase competition and help to put downward pressure on wholesale electricity prices, delivering benefits to customers. During 2017-18, the Government established a taskforce to investigate the establishment of CleanCo and will continue to investigate and engage with stakeholders across 2018-19 to deliver on its commitment.

As part of the 2017-18 State Budget, the Government announced the reinvestment of $100 million towards the Burdekin Falls Hydro Power Station and $150 million towards the North Queensland Clean Energy Hub, subject to feasibility investigations. Work continues to progress on these projects to ensure the best possible outcome for Queenslanders.

During 2017-18, the Queensland Government announced the $2 billion Affordable Energy Plan. The Affordable Energy Plan includes a $50 annual Asset Ownership Dividend to provide bill relief for households over 2017-18 and 2018-19. The initiative has been made possible due to Queensland's ownership of its electricity assets, enabling the Government to reinvest GOC dividends in a concerted effort to improve affordability. The Affordable Energy Plan also provides benefits to large customers. Initiatives such as the Large Customer Assistance Program and the Energy Savers Plus Program Extension look to assist large customers with increasing energy efficiency and electricity savings.

Queensland has experienced significant growth in the renewable energy sector over the previous two years. Queensland has many large-scale renewable projects under construction, forming part of the $4.2 billion worth of committed projects set to deliver approximately 2,200MW of generation capacity by the end of 2019. These works will generate over 3,500 construction jobs, and put Queensland on track to achieve its 50 per cent renewable energy target by 2030.

The Government is also running the Renewables 400 reverse auction to facilitate the next wave of up to 400MW of diversified renewable energy, including up to 100MW of energy storage.

The Queensland Government will spend $97 million over three years to install solar and energy efficiency measures in approximately 800 state schools. The Advancing Clean Energy Schools (ACES) program will help Queensland schools cut their combined power bill by up to 20 per cent and save an estimated $10.2 million per year. The ACES program will also boost Queensland's progress towards the 50 per cent renewables target by 2030.

8.1.3 Rail

Queensland Rail is an integrated, publicly-owned rail operator, responsible for the delivery of passenger transport in SEQ, 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) between the Government, represented by the Department of Transport and Main Roads, and Queensland Rail. The Rail TSC provides funding for rail infrastructure, Citytrain (SEQ passenger services) and Traveltrain (regional passenger services).

In 2018-19, Queensland Rail is implementing a number of rail projects which will improve the capacity and efficiency of the network, including the New Generation Rollingstock project, North Coast Line Capacity Improvement project and European Train Control System (ETCS) - Inner City.

The New Generation Rollingstock project will see a significant increase to the SEQ train fleet to meet growing demand for rail services. ETCS - Inner City is a rail signalling and train protection system which will boost the capacity and safety of the inner-city rail network.

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 for continued economic growth, job creation, and sustainable development in the State.

The port sector’s financial performance is influenced by the condition of the Queensland economy, particularly in terms of demand abroad for Queensland’s natural resources and agricultural products. Queensland ports continue to look to further enhance supply chain efficiency and identify new markets to improve financial outcomes and stimulate the economy.

Key projects that will be progressed in 2018-19 include:

- progressing approvals for the Cairns Shipping Development Project
- progressing the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project
- progressing the final Gladstone Port Master Plan and overlay documentation
- progressing works for the Channel Capacity Upgrade project at the Port of Townsville.

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 SEQ. 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.

Seqwater's revenue primarily comes from bulk water sales, with prices determined by the SEQ bulk water price path. In 2008, a 20-year bulk water price path was developed to phase in affordable price increases to fund the construction of the SEQ Water Grid and transition all Local Government Areas in SEQ to a 'common price'. During the first 10-years of the price path it was anticipated that bulk water prices would not recover the costs of bulk water supply, which resulted in Seqwater selling bulk water at a loss, with the shortfall funded by borrowings (the resulting debt is known as 'price path debt'). The following 10-years of the price path will see this debt repaid.

Most Local Government Areas in SEQ reached the common price in 2017-18, with the remaining Local Government Areas of Noosa, the Sunshine Coast, and Redland City to reach the common price by 2020-21.

The Queensland Competition Authority has conducted a Bulk Water Price Review to recommend urban bulk water prices for SEQ to apply from 1 July 2018. The final report was delivered to Government in March 2018.

Seqwater has maintained a positive operating position since the merger with the SEQ Water Grid Manager, LinkWater and the former Seqwater on 1 January 2013. Seqwater continues to set improved operational and capital efficiency targets to deliver value for money for customers.

SunWater

SunWater is the Government's major bulk water supply business for all regions outside of SEQ. 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 Dam Safety Improvement Program (DSIP) in 2005 to ensure that dam safety is maintained. The DSIP is regularly reviewed to ensure highest priority projects are addressed first.

The DSIP 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 that will be progressed in 2018-19 include:

- Fairbairn Dam spillway improvements and rectification works
- progressing works for the Teemburra Dam safety improvement project
- strengthening the monoliths 'D' and 'K' within the primary spillway of Paradise Dam and undertaking secondary spillway improvements
- progressing works for the Leslie Dam safety improvement project.

Box 8.2 Rookwood Weir

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 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 through the year toward the construction of Rookwood Weir. During 2017-18, Building Queensland publicly released the detailed business case and Queensland welcomed the Australian Government's matching commitment to fund half of the construction costs amounting to $176 million.

The State has allocated matching funding across the next four years. This means that the capital costs of $352 million for the project are fully funded.

It is expected that SunWater will be constructing and operating the weir and preparatory activities are already underway.

The Queensland Government continues to engage with the Australian Government to formalise the details of the arrangement and to agree an appropriate split of operational costs for the Rookwood Weir so that construction can begin.

8.2 Finances and Performance

8.2.1 Earnings Before Interest and Tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2017-18 are estimated to be $4.476 billion, up from $4.053 billion forecast at the time of the 2017-18 State Budget. This increase is primarily due to increases in the electricity network and electricity generation sectors, driven in part by favourable wholesale energy market conditions, higher than budgeted regulated revenue collections, and operational business and procurement savings.

Over the forward estimates, total PNFC Sector EBIT is expected to decrease to $3.621 billion in 2021-22. Relative to 2016-17, EBIT in the energy sector (networks and generation) is estimated to fall by almost 30 per cent by 2018-19 and 38 per cent by 2021-22.

The decrease in electricity generation EBIT over the forward estimates is primarily driven by forecast reductions in wholesale generation revenues as new renewable entrants enter the wholesale market, adding increased competition.

Electricity network EBIT drops from $2.331 billion in 2017-18 to $1.899 billion in 2018-19 in line with a declining forecast of regulated revenue collections. Similarly, movement in electricity network EBIT over the forward estimates is influenced by forecasts of regulated revenue collections for the network businesses.

Water sector EBIT is expected to reach $573 million in 2019-20, largely reflecting the upwards trend associated with the SEQ bulk water price path. Water sector EBIT is revised downwards from 2020-21 in recognition of the increased spend by SunWater associated with dam safety upgrades.

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]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	2,888	2,064	2,331	1,899	1,914	1,937	1,965
Electricity Generation	1,241	1,070	1,230	1,009	804	695	598
Rail	328	291	304	325	326	365	389
Ports	206	188	178	203	248	251	266
Water	470	438	477	556	573	540	414
Other	36	1	(44)	(16)	(10)	(11)	(10)
Total PNFC Sector	**5,169**	**4,053**	**4,476**	**3,976**	**3,855**	**3,777**	**3,621**

Note:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

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 take into account 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 2017-18 are estimated to be $38.135 billion. Forecast borrowings are expected to increase to $40.802 billion by 2021-22. The increase in borrowings over the forward estimates is primarily driven by the rail and electricity network 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 steadily increase over the forward estimates to fund new capital works and infrastructure projects, primarily at the Port of Townsville.

Borrowings in the water sector are largely attributable to Seqwater, which holds around $9.4 billion of debt. The debt balance is the result of the large investment in water infrastructure in response to the Millennium Drought and the associated price path. Seqwater's forecast borrowings are stable 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]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	21,702	21,689	21,702	22,252	22,722	23,215	23,738
Electricity Generation	2,593	1,580	1,864	1,602	1,588	1,585	1,585
Rail	3,310	4,061	3,498	3,617	3,902	4,200	4,439
Ports	1,054	997	1,064	1,086	1,142	1,175	1,198
Water	9,955	9,846	9,992	10,005	10,017	10,014	9,878
Other[2]	29	57	14	(2)	(18)	(27)	(36)
Total PNFC Sector	**38,644**	**38,231**	**38,135**	**38,560**	**39,353**	**40,162**	**40,802**

Notes:
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. Includes derivative adjustments for the energy GOC's.

8.2.3 Returns to Government

PNFC Sector entities provide returns to Government by way of dividends and current 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, a GOC board is expected to ensure it takes into account 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 2017-18 are estimated to be $1.819 billion, up from the $1.395 billion forecast in the 2017-18 State Budget. This increase in dividends has been driven by increased earnings from the electricity generation and electricity network businesses, which have benefited from favourable wholesale energy market conditions, higher than budgeted regulated revenue collections, and operational business and procurement savings. However, this is a temporary boost.

Importantly, the Government intends to use GOC dividend returns to help fund the $50 annual Asset Ownership Dividend which provides electricity bill relief for households over 2017-18 and 2018-19. The Asset Ownership Dividend forms part of the $2 billion Affordable Energy Plan which includes various initiatives aimed at making energy more affordable for households and businesses.

Lower profits from the GOC sector across the forward estimates are translating into much lower dividends. Relative to 2017-18, dividends are estimated to fall by 21 per cent by 2018-19 and by almost 40 per cent by 2021-22, with PNFC sector dividends projected to decrease to $1.108 billion in 2021-22. This reduction is being driven by the electricity sector, with electricity dividends halving across the forward estimates.

Electricity network dividends are expected to drop from $948 million in 2017-18 to $618 million in 2018-19, and are forecast to continue to decline over the forward estimates. Movements in electricity network dividends are influenced by forecasts of regulated revenue collections for the network businesses.

It is highlighted that the Government directed Energex and Ergon Energy to not appeal the Australian Energy Regulator's (AER) determination in 2015. In the absence of this decision, the returns from the network sector would have been higher, resulting in a higher dividend baseline.

Electricity generation dividends are expected to decline over the forward estimates in line with the reduction in generation earnings as renewable generation alternatives enter the market.

The decline in water sector dividends in 2020-21 and 2021-22 reflects the increased costs associated with dam safety upgrades.

Table 8.3 Dividends[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	1,083	716	948	618	554	507	471
Electricity Generation	383	463	645	535	457	387	320
Rail	101	92	100	134	150	162	176
Ports	72	86	80	94	126	127	136
Water	8	28	36	55	36	5	5
Other	..	10	10	..	..	..	..
Total PNFC Sector	**1,647**	**1,395**	**1,819**	**1,435**	**1,323**	**1,188**	**1,108**

Note:

1. Numbers may not add due to rounding.

Tax Equivalent Payments

Tax equivalent payments (TEPs) are paid by the PNFC Sector entities to recognise the benefits derived from not being 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.

Total forecast PNFC Sector TEPs for 2017-18 are estimated to be $770 million, up from the projected $572 million in the 2017-18 State Budget. This is largely driven by the increased profitability experienced by the electricity generation and electricity network sectors.

As TEPs generally move in line with earnings, TEPs are forecast to decrease from $770 million in 2017-18 to $499 million in 2021-22.

Table 8.4 Tax equivalent payments[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	556	324	417	290	265	244	229
Electricity Generation	190	154	249	236	234	215	164
Rail	29	39	44	47	37	32	29
Ports	47	37	41	51	66	66	69
Water	19	11	13	3	18	2	3
Other	3	7	5	5	5	5	5
Total PNFC Sector	**844**	**572**	**770**	**630**	**626**	**564**	**499**

Note:

1. Numbers may not add due to rounding.

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 2017-18 are estimated to be $139 million, $11 million higher than the $128 million forecast in the 2017-18 State Budget. CNF payments are forecast to increase from $139 million in 2017-18 to $206 million in 2021-22.

Table 8.5 Competitive neutrality fee payments[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	48	59	69	84	102	122	141
Electricity Generation	21	22	20	17	15	16	16
Rail	33	32	34	32	33	34	35
Ports	9	11	12	11	11	11	11
Water	4	5	5	5	5	5	5
Total PNFC Sector	**115**	**128**	**139**	**150**	**166**	**187**	**206**

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 Energy Queensland Limited 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 2017-18 are estimated to be $2.142 billion, slightly lower than the $2.209 billion forecast at the time of the 2017-18 State Budget.

In 2018-19, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of $2.270 billion. This is forecast to increase to $2.501 billion in 2021-22, 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.

The CSO for the water sector will be determined from 2019-20, following the Queensland Competition Authority's review of irrigation prices.

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

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	603	488	488	462	498	493	515
Rail	1,576	1,710	1,643	1,797	1,822	1,903	1,985
Water	13	11	11	11	..	..	..
Total PNFC Sector	**2,191**	**2,209**	**2,142**	**2,270**	**2,320**	**2,397**	**2,501**

Note:

1. Numbers may not add due to rounding.

8.2.5 Net Flows

Net flows represent the net value of flows to and from the PNFC Sector. This includes the positive effect of dividends and tax equivalent payments less the negative effect of CSO and TSC payments.

In contrast to the forecast in the 2017-18 State Budget, net flows to Government are expected to be positive in 2017-18, driven by upwards revisions in dividends and TEPs, particularly in the electricity sector (networks and generation).

Net flows are expected to be negative over the forward estimates. Key contributors to the deteriorating net flow position include the increasing TSC payment and declining dividend projections for the energy generation and electricity network sectors.

Table 8.7 Net flows to the General Government Sector from PNFC Sector entities[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Total PNFC Sector	299	(242)	447	(204)	(371)	(644)	(894)

Note:

1. Numbers may not add due to rounding. Bracketed numbers represent a net flow from the General Government Sector to the PNFC Sector.

8.2.6 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 2017-18 are estimated to be an equity reduction of $60 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 Energy Queensland Limited and Powerlink.

In 2018-19, Port of Townsville will receive an equity injection of $60 million to undertake works associated with the Channel Capacity Upgrade project.

In 2018-19, Queensland Rail will receive an equity injection of $460 million in relation to the Moreton Bay Rail Link project, which was constructed by the Department of Transport and Main Roads but will be transferred to Queensland Rail as the rail operator.

In 2019-20, SunWater will receive an equity injection of $100 million to undertake essential dam safety upgrades at Burdekin Falls Dam, and to develop a detailed business case for improvement, to ensure the dam continues to meet current best practice standards.

Table 8.8 Equity movements[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	(160)	(20)	(50)	(110)	(190)	(545)	(510)
Electricity Generation	..	..	..	..	..	..	..
Rail	..	18	(5)	460	..	..	..
Ports	(110)	..	..	60	..	..	..
Water	..	..	(5)	(4)	100	..	..
Other	10	..	..	..	..	..	..
Total PNFC Sector	**(260)**	**(1)**	**(60)**	**406**	**(90)**	**(545)**	**(510)**

Note:

1. Numbers may not add due to rounding. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.