8 Public Non-financial Corporations Sector

Features

- Public Non-financial Corporations (PNFC) entities provide essential services such as electricity supply and distribution, water supply, rail services and port services. The Queensland Government expects its businesses to operate commercially and efficiently and to work towards continually improving services to Queenslanders.
- The government is supporting $3.460 billion of infrastructure investment through the PNFC Sector in 2020-21. This includes $2.030 billion on electricity infrastructure, $800 million on rail infrastructure, $301.4 million on water infrastructure and $277.1 million on port infrastructure.
- In 2019-20, the PNFC Sector generated $1.086 billion of dividends, although forecasts highlight significant declines due to regulatory determinations and market dynamics. Dividends generated by the government-owned corporations (GOCs) form part of consolidated revenue used to fund a range of government services.
- Operating within a commercial framework, businesses within the PNFC Sector supported the government’s coronavirus (COVID-19) response by implementing a wide range of financial and economic measures including:
  - Energy Queensland Limited (EQL) fast-tracking price affordability measures;
  - Queensland Rail maintaining its full-service timetable for South East Queensland throughout the COVID-19 lockdown, supporting essential workers including frontline healthcare shift workers;
  - a temporary freeze of Sunwater and Seqwater irrigation water prices in 2020-21 to support business and industry, and the government subsidising $42 million worth of dam safety upgrades across the state from 2020-21 to 2023-24, rather than recover a share of these costs through irrigation prices; and
  - port and energy GOCs continuing to trade through the COVID-19 downturn providing vital support to the broader Queensland economy, while protecting their employees.
- In 2019-20, the government continued to deliver significant energy policy outcomes including CleanCo Queensland Limited (CleanCo) commencing physical trading in the National Energy Market (NEM) following its establishment as a new clean energy GOC in 2019-20. In March 2020, CleanCo announced it will build, own, and operate the Karara Wind Farm in the Darling Downs, funded by $250 million in government equity funding from the 2019-20 State Budget.

- The Queensland Government's recently announced Renewable Energy Fund will provide $500 million to GOCs to invest or co-invest in commercial renewable energy projects and supporting infrastructure, including in partnership with the private sector. This will leverage government contributions and GOC capabilities to deliver new capital investment and jobs and increase the supply of renewable energy. The Fund will complement the government's $145 million commitment to establish three Queensland Renewable Energy Zones.
- The government's investment in renewable energy and supporting infrastructure will support the commitment to achieve Queensland's 50% Renewable Energy Target by 2030.
- These actions are also delivering better pricing outcomes for Queensland households and businesses. In each of the past three years, Queensland wholesale electricity spot prices have been the lowest of all mainland states in the NEM.
- In June 2020, the Queensland Competition Authority released its *Final Determination for Regulated Retail Electricity Prices*, estimating prices in regional Queensland will fall, for the typical residential and small business customer by 5.9% and 3.2% each, in 2020-21.
- Queensland Rail continues to work with external partners to progress the Cross River Rail and European Train Control System projects, as well as upgraded train stabling, new stations and station accessibility upgrades.
- Forming a critical link between the region's diverse mining activities and the Port of Townsville, the government approved $50 million for Queensland Rail to undertake three key capital projects to improve the Mount Isa rail line. The government is also providing $20 million to eligible rail freight users as part of a four-year $80 million Mount Isa Line Incentive Scheme, making the freight journey faster and more reliable for exporters, and thereby boosting mineral freight exports and jobs in the region.
- Other Port GOCs projects being progressed in 2019-20 and 2020-21 include:
  - the Townsville Channel Capacity Upgrade and Clinton Vessel Interaction Project; and
  - $30 million to upgrade facilities at the Ports North Cairns Marine Precinct and a business case for future development of the Precinct as a regional centre for large vessel repair work.
- The joint Queensland and Australian government funded Rookwood Weir being built by Sunwater will grow agricultural production along the Fitzroy River and enhance the security of urban and industrial water supplies for Gladstone and Capricorn Coast centres.

8.1 Context

The entities comprising the PNFC Sector operate in a range of industries including energy, rail, port and water services.

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, and similar provisions are made in the enabling legislation of Seqwater and Queensland Rail.

PNFC entities provide services such as vital port services, electricity supply and distribution, rail services and water supply. The entities incur costs and bear commercial risks in the delivery of their services or products and generate a commercial rate of return from the sale of these services or products.

The returns to government form part of consolidated revenue that is used to pay for various government services. Part of some PNFCs' revenue may arise from community service obligation (CSO) payments from the government. These payments are used to subsidise a service, so it can be offered to the community at a price lower than it would otherwise be if full cost recovery and normal margins were applied.

A key example is the CSO paid to Energy Queensland Limited (EQL) 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 spans approximately 1,700 kilometres from north of Cairns to New South Wales and comprises 15,338 km of transmission lines and 147 substations.

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

EQL was formed from the merger of Energex and Ergon Energy in June 2016. 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 with 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 by 2019-20. These savings have delivered benefits to both government and electricity consumers, through improved returns from the business, and by putting downward pressure on electricity prices. EQL exceeded its savings target to 2019-20, with total savings of $643 million.

To address the impact of COVID-19 on their customer base, EQL fast-tracked a range of measures including price affordability measures, the temporary suspension of disconnections for non-payment and the delivery of the government's utility relief payments for residential and small business customers.

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 2017-2022 regulatory control period, resulting in a significant reduction in allowable revenues for the business. Powerlink is currently preparing its submission for the 2022-2027 regulatory control period, to be lodged in January 2021, and the AER will make its final determination in April 2022.

In December 2019, the Energex and Ergon Energy businesses submitted to the AER their revised regulatory proposals for the 2020-2025 revenue determination period. In June 2020, the AER made its final revenue determination, which will result in significant electricity bill reductions for the average Queensland residential household and small business.

The final revenue determination will lead to a reduction in revenue for EQL relative to the previous AER regulatory period, driven largely by a reduction in the allowable return on capital. In the absence of reductions in EQL's cost profile, this will result in lower forecast returns to the state from the electricity network sector.

8.1.2 Electricity generation

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

Queensland realised the lowest wholesale market spot prices over the past three financial years, and forward wholesale prices remain among the lowest in the NEM.

Queensland continues to operate Australia's youngest and most efficient fleet of coal-fired generators and an increasing number of large-scale renewable projects. This includes assets owned by Queensland Government owned generators - Stanwell, CS Energy and CleanCo. In March 2020, CleanCo announced it would build, own and operate the 102.6 MW Karara Wind Farm. In addition, generators have entered into new long-term power purchase agreements with several wind and solar farms. With these investments, our generators now own or support over 2,000 MW of renewable energy generation in Queensland.

The establishment of CleanCo has increased competition in the energy sector, placing downward pressure on electricity prices. CleanCo will play a key role in delivering the government's 50% Queensland Renewable Energy Target by 2030.

CleanCo

CleanCo is Queensland's newest energy generator, owning and operating a portfolio of low and no emissions generation assets across Queensland. Established in December 2018, CleanCo was transferred a strategic asset portfolio from Stanwell and CS Energy in 2019-20. In early 2020-21, CleanCo took full operational responsibility for its assets and site employees.

In addition to its foundation portfolio, in 2020 CleanCo committed to support a further 930 MW in renewable generation capacity. This was through three power purchase agreements in the Darling Downs and Far North Queensland and the build, own, and operation of the 102.6 MW Karara Wind Farm.

CS Energy

CS Energy is a major supplier of electricity across Queensland, owning and operating the Callide B and Kogan Creek Power Stations and a 50% interest in the Callide C Power Station. CS Energy is also a party to the Gladstone Interconnection and Power Pooling Agreement, and trades output of the Gladstone Power Station that exceeds the requirements of the Boyne Island aluminium smelter.

Stanwell

Stanwell is a major supplier of energy into the NEM, generating and trading electricity from three coal-fired power stations in Queensland. Stanwell also sells electricity directly to large commercial and industrial customers in Queensland, New South Wales, the Australian Capital Territory and Victoria, and also earns revenue from coking coal exported from Curragh Mine.

Box 8.1 Renewable energy

The government is committed to reaching the 50% Queensland Renewable Energy Target by 2030, and Queensland's generators are playing an important role in this transition.

As part of the *Powering Queensland Plan*, the government established CleanCo as the state's new renewable energy generator and as a structural solution to increase competition in the wholesale electricity market and place downward pressure on wholesale electricity prices. CleanCo has a mandate to deliver 1,000 MW of new renewable energy generation in Queensland by 2025. This plan is working, as Queensland continues to realise some of the lowest wholesale electricity prices in Australia.

In March 2020, CleanCo announced it would build, own and operate the 102.6 MW Karara Wind Farm. In addition, generator GOCs have entered into new long-term power purchase agreements with several wind and solar farms supporting or owning over 2,000 MW of renewable energy generation in Queensland.

Queensland's energy market has already seen 44 large-scale renewable energy projects commence operations, be under construction or financially committed since 2015. This represents more than $8.5 billion in investment and more than 7,000 construction jobs.

The Queensland Government has announced the $500 million Renewable Energy Fund, enabling Queensland's five energy GOCs to increase ownership of commercial renewable energy projects and supporting infrastructure, including in partnership with the private sector.

The existing skills and expertise from the energy GOCs will be used to engage with market proponents and identify commercial investment proposals, with opportunities for appropriate returns for the government. The Renewable Energy Fund will advance the transition towards renewable energy sources, create jobs, and further establish Queensland as a leader in renewable energy.

The government's *Unite and Recover: Queensland's Economic Recovery Plan* also includes a commitment of $145 million to establish three Queensland Renewable Energy Zones. In these zones - in northern, central, and southern regions of Queensland - the government is committed to undertake strategic network investments, streamline the development of new renewable energy projects and work to match industrial energy demand with cheap, clean renewable energy.

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 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).

Queensland Rail maintained its full-service timetable for South East Queensland throughout the coronavirus (COVID-19) lockdown, supporting essential workers including frontline healthcare shift workers. Recently, it introduced additional services to support social distancing measures and has fully restored most of the regional travel and tourism services that were reduced or suspended during the peak of the COVID-19 crisis.

Box 8.2 Rail manufacturing in Queensland

The Queensland Government has committed to support continued rail manufacturing in Queensland and state manufacturing supply chains.

The package includes a commitment of $600 million for the construction of 20 new trains in the Maryborough region to support local jobs and regional supply chains. These trains will be ready by 2025 in order to support service delivery following completion of the Cross River Rail project. The government will consider an option to build a further 45 trains to meet future network demand.

The government will also revitalise rail manufacturing in Rockhampton. This will include securing land at the old Aurizon workshop to develop a rail maintenance, manufacturing and logistics centre that can support local suppliers to manufacture components for Queensland-built trains.

The government has committed $300 million for a pipeline of works to refurbish and maintain Queensland Rail's existing fleet over the next 10 years. These works will be progressed as part of a Strategic Partnership Agreement. The first signatory to this agreement is Downer EDI, located in Maryborough. This pipeline will see the enhancement of our rail fleet through a number of major projects such as the overhaul of electric and diesel Tilt Trains, as well as the Interurban Multiple Unit 160 and Suburban Multiple Unit 260 fleets.

Other commitments include continuation of $85 million in works to improve disability accessibility on the New Generation Rollingstock Fleet, and $1 million for a business case to replace the carriages of the iconic, long-distance Westlander, Inlander and Spirit of the Outback services.

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 and the Amrun Port near Weipa, the authorities responsible for Queensland's ports are owned and run by GOCs. Despite the impact of COVID-19 on some port related activities such as tourism and trade over the past six months, Queensland's ports have continued to play an essential role in the state's supply chain networks and economy. Their efficient operation is essential to continued economic growth, job creation and sustainable development in the state.

The ports sector's financial performance is influenced by various factors including supply chain expansions and disruptions, evolving transportation methods and Queensland and global economic conditions, particularly overseas demand for Queensland's natural resources and agricultural products.

While the global trade impacts from COVID-19 are still emerging, Queensland ports continue to look to new markets to improve financial outcomes and stimulate the economy, while meeting environmental and community obligations.

The port authorities have been working closely with industry and the government to ensure the necessary measures are in place to keep ports operational and trade flowing, while protecting transport and port supply chains and workforces during the COVID-19 pandemic.

Ports have also been providing fee and rental relief to tenants and customers in response to COVID-19. Given the significant effect on Far North Queensland's tourism, resources and commercial seafood industries, Ports North will provide approximately $7.6 million of COVID-19 relief support measures to local Cairns operators over the period February to December 2020.

Queensland's port GOCs will progress a number of projects in 2020-21 including the Channel Capacity Upgrade at the Port of Townsville, which has increased from $193.5 million to $232 million in cost, driven by a change in delivery methodology for major works packages, and the impact of COVID-19 on project delivery.

Other key projects for port GOCs in 2020-21 include:

- works for Berth 4 upgrades at the Port of Townsville
- works for Tug Berth upgrades at the Port of Mackay
- plans for the RG Tanna Shiploader 1 replacement, securing approvals for future growth projects, and completing the Clinton Vessel Interaction Project at the Port of Gladstone
- the Master Plan for the Port of Cairns and Mourilyan, which will inform future capital investment in the Cairns Marine Precinct.

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 are 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 South East Queensland's 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 2020-21 include:

- progressing the Ewen Maddock Dam Upgrade
- commencing the South West Pipeline to Beaudesert
- planning for the Somerset Dam Upgrade.

With South East Queensland water storages falling below 60% in September 2020, Seqwater is operating in drought response mode. This includes increasing production at the Gold Coast Desalination Plant to best preserve dam levels, and a water saving campaign to reduce water consumption. Further drought response measures may be required through 2020-21 if drought conditions continue.

Sunwater

Sunwater is the government's major bulk water supply business for 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 $14 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 reliability of dams and the ongoing safety of downstream communities. 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 2020-21 include:

- completing the essential works at Paradise Dam to temporarily reduce the level of the spillway to improve its stability and the safety of downstream communities
- progressing planning for Paradise Dam spillway improvements to identify the optimal option to enhance the dam to meet future extreme weather events
- progressing planning for Burdekin Falls Dam spillway improvements
- continuing feasibility studies into potentially raising Burdekin Falls Dam.

8.2 Finances and performance

8.2.1 Earnings before interest and tax

Total PNFC Sector earnings before interest and tax (EBIT) for 2019-20 were $1.905 billion, significantly lower than the $3.672 billion forecast at the time of the 2019-20 State Budget. This large reduction was primarily due to decreases in the electricity generation sector, driven by a decline in wholesale electricity spot prices caused by weaker market conditions. This has resulted in material coal-fired generator asset impairments by Stanwell and CS Energy.

This downward trend in electricity generation EBIT and associated asset impairments is largely due to forecast reductions in wholesale generation revenues as new renewable participants enter the wholesale market, increasing competition and driving down wholesale prices.

Electricity generation EBIT is however forecast to increase from $397 million in 2022-23 to $539 million in 2023-24 due to expected higher wholesale prices following the scheduled closure of the Liddell Power Station in New South Wales.

The electricity network sector EBIT is estimated to fall by around one-third in 2020-21 onwards (compared to 2019-20 levels), driven by EQL's new regulated revenue determinations for the period of 1 July 2020 to 30 June 2025, and to a lesser extent by Powerlink's upcoming new regulated revenue determination for the period of 1 July 2022 to 30 July 2027.

The 2019-20 EBIT for the water sector was $255 million, substantially lower than the $571 million forecast at the time of the 2019-20 State Budget. This result was driven by Sunwater's decision to provision for a potential future liability in relation to the 2011 South East Queensland Floods Class Action.

The water sector EBIT is expected to reach $564 million in 2021-22, largely reflecting the upwards trend associated with the South East Queensland bulk water price path. However, from 2021-22 the water sector EBIT is forecast to decline in recognition of the increased spend by Sunwater associated with the DIP, that will be partly expensed.

Port sector EBIT is forecast to trend steadily upwards over the forward estimates reflecting the various long-term revenue contracts supported by the completion of revenue generating capital expansions.

Overall across the forward estimates, PNFC Sector EBIT is expected to increase to $2.784 billion by 2021-22, with a slight decrease to $2.650 billion by 2023-24.

Table 8.1 Earnings before interest and tax[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	2,092	1,850	1,795	1,179	1,191	1,140	1,127
Electricity Generation	1,384	830	(469)	572	509	397	539
Rail	324	244	255	301	362	327	329
Ports	161	212	159	192	230	248	265
Water	596	571	255	517	564	507	467
Other[2]	59	(34)	(90)	(45)	(72)	(75)	(77)
Total PNFC Sector	**4,616**	**3,672**	**1,905**	**2,715**	**2,784**	**2,544**	**2,650**

Notes:

1. Numbers may not add due to rounding.
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. Borrowings also include derivative liabilities associated with hedging activities undertaken by the GOCs.

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 PNFC Sector borrowings in 2019-20 were $40.700 billion, $713 million higher than forecast at the time of the 2019-20 State Budget. The increase was primarily due to higher derivatives in the electricity generation sector, arising from material adverse movements in long positions due to lower electricity prices.

Borrowings are expected to increase slightly over the forward estimates to $41.11 billion by 2023-24, primarily driven by the rail and electricity network sectors.

Electricity network borrowings are expected to increase in 2020-21 due to the bringing forward of capital project works, but remain otherwise steady over the forward estimates (in line with the regulated asset base). Rail sector borrowings are expected to increase with the Queensland Rail capital program.

Borrowings in the water sector are largely attributable to Seqwater, which currently holds $9.426 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 with price path debt repayment.

Port sector borrowings are forecast to increase to $1.157 billion by 2023-24. The increase in borrowings is to fund new capital works and infrastructure projects primarily at the Port of Townsville and Ports North.

The gearing levels of all GOCs continue to be monitored to target metrics which are, at a minimum, consistent with an investment grade credit rating.

Table 8.2 Borrowings[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	22,046	23,073	23,050	23,830	23,880	23,873	23,951
Electricity Generation	1,984	1,831	2,655	1,845	1,761	1,723	1,742
Rail	3,439	3,852	3,746	4,093	4,430	4,682	4,810
Ports	1,061	1,173	1,086	1,090	1,111	1,158	1,157
Water	9,983	9,981	9,985	9,937	9,622	9,485	9,308
Other[2]	194	77	178	169	160	151	141
Total PNFC Sector	**38,707**	**39,987**	**40,700**	**40,964**	**40,964**	**41,071**	**41,110**

Notes:

1. Numbers may not add due to rounding.
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 PNFC Sector dividends for 2019-20 were $279 million less than forecast at the time of the 2019-20 State Budget. This was driven by a $214 million reduction in dividends from the electricity generation businesses, primarily due to lower electricity prices impacting revenues.

Water sector dividends in 2019-20 were $40 million less than forecast at the time of the 2019-20 State Budget, driven by Sunwater's decision to provision for a potential future liability in relation to the 2011 South East Queensland Floods Class Action.

Lower expected profits are translating into lower dividends over the forward estimates, with declines in the electricity networks and generation sectors partly offset by an increase in the rail and ports sectors. PNFC Sector dividends are projected to decrease from $1.086 billion in 2019-20 to $630 million in 2020-21, before increasing to a projected $695 million in 2023-24. The reduction in dividends over the forward estimates relative to 2019-20 is being driven by the electricity sector.

Electricity network dividends are expected to drop by 80% to $106 million in 2020-21 due to the AER's revenue determination leading to a projected fall in EQL's profitability, to then slightly increase to $122 million by 2023-24.

Electricity generation dividends are also expected to decline with the entry of renewable generation capacity keeping downward pressure on electricity prices. The rebound in 2023-24 is correlated with the expected closure of the Liddell Power Station in New South Wales tempering electricity supply in the market.

Ports sector dividends are forecast to maintain stable levels over the forward estimates with gradual growth in line with profits.

Water sector dividends are expected to remain low over the forward estimates due to the increased costs of Sunwater's DIP to ensure the safety and stability of dams and the ongoing safety of downstream communities.

Table 8.3 Dividends[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome$ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	771	596	532	106	133	124	122
Electricity Generation	615	519	305	278	222	169	247
Rail	142	102	119	142	160	176	172
Ports	99	102	110	97	118	131	144
Water	58	45	5	8	9	10	10
Other[2]	8	..	15	..	..	..	..
Total PNFC Sector	**1,694**	**1,365**	**1,086**	**630**	**641**	**609**	**695**

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.

TEPs generally move in line with earnings over time. TEPs are forecast to decrease from $716 million in 2019-20 to $402 million by 2022-23, then increase to $424 million in 2023-24.

Table 8.4 Tax equivalent payments[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	363	371	358	158	176	170	169
Electricity Generation	444	234	232	163	136	130	160
Rail	60	48	55	51	51	29	18
Ports	45	54	56	50	57	61	66
Water	30	8	12	4	5	6	6
Other[2]	3	5	3	5	5	5	5
Total PNFC Sector	**945**	**720**	**716**	**431**	**431**	**402**	**424**

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 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 PNFC Sector CNF payments for 2019-20 were $170 million, in line with the 2019-20 State Budget forecast. CNF payments are forecast to increase to $192 million by 2023-24.

Table 8.5 Competitive neutrality fee payments[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	89	106	106	118	125	124	139
Electricity Generation	17	17	16	15	14	12	12
Rail	34	30	33	27	26	26	27
Ports	11	12	10	10	10	9	8
Water	5	5	5	4	5	5	6
Total PNFC Sector	**156**	**169**	**170**	**175**	**180**	**176**	**192**

Note:

1. Numbers may not add due to rounding.

8.2.4 Community service obligation and rail transport services contract payments

For public policy reasons government will direct or require businesses to perform activities that are not in the entity's commercial interest (for example, offering services at a reduced price to benefit a community). In these situations, the government can provide a community service obligation (CSO) payment to the entity for the cost of delivering an uncommercial 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.

Total PNFC Sector CSO and TSC payments for 2019-20 were $2.302 billion, in line with the $2.309 billion forecast at the time of the 2019-20 State Budget.

In 2020-21, it is estimated that the government will provide CSO and TSC payments to PNFC Sector entities of $2.434 billion. This is forecast to increase to $2.679 billion by 2023-24, 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, progression of capital works and operational readiness activities to support Cross River Rail, and forecast growth in services.

Relative to 2019-20, water CSO payments are forecast to increase over the forward estimates, due to the government's commitment to reduce rural irrigation water prices for Sunwater and Seqwater customers.

Table 8.6 Community service obligation payments and transport services contracts[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	462	498	498	454	502	505	490
Rail	1,778	1,801	1,794	1,959	2,074	2,131	2,163
Water	10	10	9	21	35	27	26
Total PNFC Sector	**2,250**	**2,309**	**2,302**	**2,434**	**2,612**	**2,663**	**2,679**

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 PNFC Sector Equity Injections for 2019-20 were $279 million, significantly higher than the $19 million forecast at the time of the 2019-20 State Budget. The increase is primarily due to the transfer of Queensland Country Bank Stadium to Stadiums Queensland.

Equity movements in the PNFC Sector across the forward estimates will be primarily influenced by the Renewable Energy Fund, as discussed previously.

Across the forward estimates, forecast equity movements in the electricity networks sector are intended to maintain the gearing ratios of these businesses over time. Forecast equity movements in the electricity generation sector relate to the $250 million in funding allocated to CleanCo for its Karara Wind Farm.

Over the forward estimates, Port of Townsville will receive $105 million of contributed equity for the Channel Capacity Upgrade project. The Queensland Government has further committed $30 million to upgrade facilities at the Ports North owned Cairns Marine Precinct and fund a business case for future development. Gladstone Ports Corporation, under a project agreement with the Australian Government, is to receive $10 million for new infrastructure at the Port of Bundaberg, subject to completing project milestones.

Queensland Rail will receive an equity injection of $35 million in 2022-23 to support its capital program.

It is projected that Sunwater will receive an equity injection of $100 million in 2023-24 to undertake essential dam safety upgrades at Burdekin Falls Dam.

Table 8.7 Equity movements[1]

	2018-19 Outcome $ million	2019-20 Budget $ million	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Electricity Networks	..	(106)	(67)	(80)	(130)	(80)	(130)
Electricity Generation	(80)	50	(5)	43	182	25	..
Rail	481	..	..	..	..	35	..
Ports	90	40	30	76	48	..	20
Water	(6)	..	(3)	..	..	..	100
Other[2]	(2)	35	323	128	125	125	125
Total PNFC Sector	**483**	**19**	**279**	**167**	**225**	**105**	**115**

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 such as Stadiums Queensland and potential funding allocations for the Renewable Energy Fund while the operation and application of the fund is being finalised.