

## 9 Public Non-Financial Corporations Sector

### Features

- Entities in the Public Non-financial Corporations (PNFC) Sector provide essential services such as electricity supply and distribution, bulk water supply, rail services and port services. The Queensland Government has a strong commitment to keeping these assets in public ownership, and expects these businesses to operate commercially and efficiently and to work towards continually improving services to Queenslanders.
- The government is supporting over \$3.7 billion of infrastructure investment through the PNFC Sector in 2021–22. This includes over \$2.24 billion on electricity infrastructure, \$900 million on rail infrastructure, \$320 million on water infrastructure and \$240 million on port infrastructure.
- In 2020–21, the PNFC Sector is forecast to generate \$419 million of dividends, although forecasts highlight declines in electricity sector revenues due to regulatory determinations and market dynamics. The reductions in network and wholesale prices are leading to lower electricity prices for Queenslanders. In addition, because the government owns these assets, dividends generated by government-owned corporations (GOCs) form part of consolidated revenue used to fund a range of government services.
- The government is delivering significant energy policy initiatives including the \$2 billion Queensland Renewable Energy and Hydrogen Jobs Fund to enable energy GOCs to increase investment in commercial renewable energy and hydrogen projects, along with supporting infrastructure, including in partnership with the private sector. This represents a \$1.5 billion increase to the existing \$500 million Renewable Energy Fund.
- The government has committed \$145 million to establish 3 Queensland Renewable Energy Zones (REZs) across Queensland. For the Northern Queensland REZ, the government is investing \$40 million to upgrade transmission lines south of Cairns, enabling Neoen's \$370 million Kaban Green Power Hub to proceed and supporting 250 construction jobs.
- The government is delivering lower electricity prices for Queensland households and businesses. Over the period from 2017–18 to 2021–22, electricity bills for the typical regional Queensland household have fallen by over 17 per cent. In June 2021, the Queensland Competition Authority released its *Final Determination for regulated regional electricity prices in 2021–22*, with an average household expected to receive a 7.3 per cent reduction in their electricity bill in 2021–22, and average small and large businesses both expected to receive reductions of up to 3.7 per cent.
- Queensland Rail continues to work with external partners to progress significant new rail infrastructure including the Cross River Rail project, European Train Control Systems, new stations, and train stabling and station accessibility upgrades.

- Major port projects continuing in 2021–22 include the \$232 million Townsville Channel Capacity Upgrade which will widen the existing sea channels and improve freight export and import opportunities for North Queensland. Planning is also underway for significant infrastructure upgrades at the Ports North Cairns Marine Precinct to support the Cairns marine industry, diversify the local economy and take advantage of emerging defence-related opportunities.
- Construction of the Rookwood Weir and associated infrastructure like roads and bridges is significantly progressed, jointly funded by the Queensland Government and Australian Government, and on track for completion in 2023. This project will grow agricultural production along the Fitzroy River and will ultimately enhance the security of urban and industrial water supplies for Gladstone and Capricorn Coast centres.

## 9.1 Context

Entities comprising the Public Non-financial Corporations (PNFC) Sector provide vital services such as electricity supply and distribution, water supply, and rail and port services.

Queensland government-owned corporations (GOCs), declared by regulation to be GOCs under the *Government Owned Corporations Act 1993* (GOC Act), comprise a large share of the PNFC Sector. The sector also comprises commercialised statutory entities, including Queensland Rail, Queensland Bulk Water Supply Authority (trading as Seqwater), local water boards and other public corporations (such as Stadiums Queensland).

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 Queensland Rail and Seqwater. 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.

Returns from the PNFC Sector contribute to consolidated revenue and are used to pay for various government services. A portion of PNFC revenue may arise from community service obligation (CSO) payments from the government. Such payments are used to subsidise particular services so they can be offered to the community at prices lower than would otherwise be possible 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.

The commercial nature of these entities ensures debt is self-supporting, and net worth continues to grow over the forward estimates. The Queensland Government's ongoing commitment to maintaining public ownership of the entities in the PNFC Sector guarantees all Queenslanders benefit from their performance.

**Table 9.1 Key financial aggregates<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Revenue	13,589	12,607	12,418	12,237	11,958	11,750	11,967
Expenses	12,662	11,981	11,413	11,463	11,190	11,070	11,247
<b>Net Operating Balance</b>	<b>927</b>	<b>626</b>	<b>1,006</b>	<b>774</b>	<b>768</b>	<b>680</b>	<b>720</b>
PNFA <sup>2</sup>	3,156	3,460	3,491	3,713	3,654	3,297	3,327
Assets	70,840	70,887	70,012	71,678	72,904	74,092	75,194
Borrowing with QTC	38,894	39,967	40,225	40,655	40,782	40,978	41,369
Leases and other similar arrangements	492	468	448	405	372	338	302
Securities and derivatives	1,315	529	68	245	142	129	134
Notes:							
1. Numbers may not add due to rounding.							
2. PNFA: Purchases of non-financial assets.							

## 9.1.1 Electricity networks

The government owns 2 electricity network businesses that are responsible for transmitting safe, reliable electricity to consumers across the state (Powerlink and Energy Queensland Limited).

### Powerlink

Powerlink owns, develops, operates and maintains the electricity transmission network in Queensland. Its network spans approximately 1,700 km from north of Cairns to the New South Wales border, 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 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)

EQL owns and operates the low-voltage distribution network that transmits electricity from Powerlink’s transmission network to households and businesses across Queensland. EQL includes a number of operating subsidiary businesses.

Ergon Energy Network and Ergon Energy Retail provide distribution network and customer retail services respectively in regional Queensland, while Energex provides distribution network services to customers within South East Queensland.

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 commercial and industrial customers, and to provide EQL with an enhanced ability to respond to emerging trends.

### **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 5-yearly basis, based on the businesses' proposals and its view of the reasonable benchmark efficient costs for a network business.

In January 2021, Powerlink submitted its revenue proposal to the AER for the 2022–27 period. The AER will publish draft and final decisions in October 2021 and April 2022, respectively.

Similarly, Energex and Ergon Energy Network, as electricity distribution providers, have their distribution charges for each 5-year period determined by the AER. The AER published its final decision in June 2020 for the 2020–25 regulatory control period, leading to significant electricity bill reductions for the average Queensland residential household and small business.

This AER revenue determination also led to a reduction in revenue and earnings for EQL relative to the previous AER regulatory period (2015–20), driven largely by a reduction in the allowable return on capital and a focus on reduced operating expenditure.

## **9.1.2 Electricity generation**

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

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 government-owned generators – CleanCo, CS Energy, and Stanwell.

In March 2020, CleanCo announced it will build, own and operate the 102.6 megawatt (MW) Karara Wind Farm. In addition, the generators have entered into new long-term power purchase agreements with several wind and solar farms. With these investments, government-owned generators now own or support over 2,000 MW of renewable energy generation across Queensland.

The GOCs will play a key role in helping to deliver the government's 50 per cent Queensland Renewable Energy Target by 2030.

### **CleanCo**

CleanCo is the newest publicly owned energy generator in Queensland, owning and operating a portfolio of low and no emissions generation assets across Queensland. Following the transfer of a strategic low-emissions generation portfolio from Stanwell and CS Energy in late-2019, CleanCo has been an active participant in the National Electricity Market.

In addition to its foundation portfolio, in 2020, CleanCo committed to support a further 930 MW in renewable generation capacity. This will be achieved by 3 power purchase agreements in the Darling Downs and Far North Queensland and the 102.6 MW Karara Wind Farm in the Darling Downs, which the company will build, own and operate. As a result, CleanCo is well-progressed to meet its mandate to support 1,000 MW of new renewable energy generation capacity in Queensland by 2025 and deliver the government's Renewables 400 reverse auction – involving CleanCo supporting 400 MW of new clean energy capacity at MacIntyre Wind Farm.

### **CS Energy**

CS Energy is a major supplier of electricity across Queensland, with a portfolio of around 3,500 MW of installed capacity under management, including the Callide B and Kogan Creek Power Stations, and the Callide C Power Station, which it operates and has a 50 per cent ownership interest in. 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 electricity requirements of the Boyne Island aluminium smelter

Since 2020, CS Energy has entered multiple agreements to purchase electricity from renewable energy generators, including with Moura, Warwick, Hughenden, and Columboola solar farms. CS Energy also provides retail services to large commercial and industrial customers throughout Queensland and has a 50/50 joint venture with Alinta Energy to supply electricity to residential and small business customers in South East Queensland. In partnership with Japan's IHI Corporation, CS Energy will undertake a feasibility study into establishing a renewable hydrogen demonstration plant next to Kogan Creek Power Station near Chinchilla.

On 25 May 2021, a fire occurred at the Callide C Power Station. The cause of the incident is subject to an investigation.

### **Stanwell**

Stanwell is a major supplier of electricity across Queensland, with a portfolio of around 3,300 MW of installed capacity from its 3 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 earns revenue from coking coal exported from Curragh Mine.

In 2020, Stanwell entered a long-term agreement to offtake 348 MW of renewable energy from the Clarke Creek Wind Farm. The wind farm is located around 150 km north-west of Rockhampton in Central Queensland, with construction commencing in 2021.

Notable ongoing feasibility investigations for Stanwell include: a hydrogen export facility in Gladstone as part of a consortium with Japan's Iwatani Corporation; and partnering with Vast Solar to undertake a feasibility study into a concentrated solar thermal power plant to be located at Mount Isa, providing a potential long-term solution to lower cost power supply in the region. Stanwell is also assessing market responses to its expression of interest calling for renewable energy project opportunities.

## Box 9.1 Renewable energy

Affordable and reliable energy supply is crucial to Queensland's economic prosperity. Queensland's clean energy policies underpin affordable and reliable energy, while supporting increased investment, jobs and economic growth. This includes the 50 per cent Queensland Renewable Energy Target by 2030 which will reduce emissions, help address climate change, create jobs and diversify the state's economy.

Since 2015, 44 large-scale renewable energy projects have become operational, financially committed, or are under construction in Queensland. This represents around \$10 billion in investment and more than 7,000 construction jobs. Once all projects are operational, Queensland will have more than 9,100 MW of small-scale and large-scale renewable energy capacity.

At the end of 2020, Queensland reached a significant milestone, at which point renewables were supplying over 20 per cent of our electricity demand. This significant investment in renewables is testament to Queensland's world-class renewable energy resources. It is critical that Queensland continues to leverage this competitive advantage to support further investment and economic growth across the state, and to underpin the transition to a sustainable energy future.

In recognition of the crucial role the GOCs will play in Queensland's energy transformation, the government has established the \$2 billion Queensland Renewable Energy and Hydrogen Jobs Fund for energy GOCs to increase investment in commercial renewable energy and hydrogen projects, along with supporting infrastructure, including in partnership with the private sector. This will advance the State towards the renewable energy target, create jobs, and further establish Queensland as a leader in renewable energy and green-energy based economic development.

New GOC investment in renewables will complement the State's existing portfolio of baseload generation assets, which will be critical to ensure security of electricity supply through Queensland's energy transformation and support a growing manufacturing and resources sector.

The Queensland Government's *Economic Recovery Plan* also included a commitment of \$145 million to establish 3 Renewable Energy Zones across northern, central and southern Queensland. In these zones, the government will undertake strategic network investments, streamline the development of new renewable energy projects and work to match industrial energy demand with cheap, clean renewable energy.

### 9.1.3 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).

In 2021–22, Queensland Rail will support the delivery of significant new rail infrastructure, including the Cross River Rail project by the Cross River Rail Delivery Authority and other transformational rail infrastructure projects to increase rail service delivery for the State's growing population. These investments will support local manufacturing supply chains, as well as creating and maintaining jobs in regional areas.

### 9.1.4 Ports

Queensland has a large network of ports that are owned and run by GOCs along its coastline. These businesses, Gladstone Ports Corporation (GPC), North Queensland Bulk Ports Corporation (NQBP), Port of Townsville Limited (POTL), and Far North Queensland Ports Corporation (trading as Ports North), own and operate a range of assets from small facilities serving local communities to large, world class multi-user and multi-cargo ports, which have public and privately owned import and export facilities.

Queensland's ports play an essential role in the state's supply chain networks and economy, and their efficient operation is key to economic growth, job creation and sustainable development across the state.

Government-owned ports in regional areas will remain committed to supporting local communities recovering from the impacts of COVID-19 with Ports North expected to provide approximately \$10 million in ongoing fee and rent relief to Far North Queensland's tourism industry operators over the period from February 2020 to June 2022.

Government-owned ports will work with government on the 'Backing Queensland Maritime Jobs' initiative to create a new coastal shipping service, providing economic stimulus to regional Queensland and fostering growth and skills of a local maritime workforce.

Other port GOC projects continuing throughout 2021–22 include:

- the \$232 million Channel Capacity Upgrade at the Port of Townsville
- ongoing works at Gladstone Port Corporation's RG Tanna Coal Terminal
- upgrading facilities at the Cairns Marine Precinct
- preparing Master Plans for the Ports of Cairns and Mourilyan to inform future capital investment in the Precinct
- working with proponents in Gladstone and Townsville to identify and progress potential Hydrogen opportunities at the respective ports.

## Box 9.2 Queensland's hydrogen future

Queensland has the potential to lead the nation in the future production of hydrogen for both the domestic and export markets, with the development of this sector offering significant industry development and job opportunities across regional Queensland. Queensland is already providing direct investment in state-of-the-art training facilities to attract new workers to the industry, and supporting partnerships between Queensland GOCs and the private sector.

Queensland GOCs are leading research, development, and commercialisation opportunities for hydrogen production. The port and energy GOCs are ideally positioned to apply their skills, experience, and infrastructure towards advancing Queensland's hydrogen future.

Various domestic and international opportunities are currently being explored by Queensland GOCs, including in partnership with other key stakeholders, such as:

- POTL and Origin Energy signed a memorandum of understanding in April 2021 for the development of a hydrogen facility in Townsville. This includes investigating the potential expansion of POTL land, construction of a new berth and supporting infrastructure
- Stanwell announced the formation of a consortium with Japanese energy company, Iwatani Corporation, in November 2020 to progress studies and planning for a potential new renewable hydrogen export facility at Gladstone Port. This commitment follows Stanwell's completion of its Central Queensland hydrogen concept study in 2020
- CS Energy and IHI Corporation Japan announced a partnership in February 2021 to assess the feasibility of establishing a renewable hydrogen demonstration plant next to CS Energy's Kogan Creek Power Station near Chinchilla. The concept includes the co-location of a solar farm, battery, hydrogen electrolyser and a hydrogen fuel cell. The focus of this project is a hydrogen electrolyser being powered by behind-the-meter solar energy, which would make it one of the few truly green hydrogen projects in Australia
- in March 2021, GPC signed a memorandum of understanding with Sumitomo Australia, Gladstone Regional Council, Australian Gas Infrastructure Group, and Central Queensland University to establish a Gladstone H2 Ecosystem which will enable parties to work together to identify and progress hydrogen opportunities in the region.

These are important steps towards the government's plan to build Queensland's hydrogen industry and highlights the key role that regional Queensland will play in the hydrogen supply chain, with the potential to create thousands of regional jobs in the process.

The efforts of these GOCs will complement the role of the newly-established Queensland Hydrogen Taskforce to fast-track the planning, development, production, domestic use and export of hydrogen from Queensland.

## 9.1.5 Water

The 2 largest entities in the Queensland bulk water supply industry are the Queensland Bulk Water Supply Authority (trading as Seqwater) and Sunwater Limited (Sunwater). Other water entities in the PNFC Sector include the Gladstone Area Water Board and Mount Isa Water Board.

### 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 7 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 and reliability of its dams and compliance with dam safety guidelines into the future.

Key projects for Seqwater in 2021–22 include:

- construction of the South West Pipeline to connect Beaudesert to the South East Queensland Water Grid to ensure a reliable long-term water supply
- further works at the Mount Crosby East Bank Water Treatment Plant, including refurbishment of water treatment plant filters and upgrading the substation to improve flood resilience
- planning activities for the Somerset Dam safety upgrade
- preparatory work for the Toowoomba to Warwick Pipeline.

Drought conditions have seen a steady decline in South East Queensland dam levels since 2018, with Seqwater continuing to operate in a drought response mode. This includes utilising the Gold Coast Desalination Plant and South East Queensland Water Grid to preserve dam levels as well as continuing the water saving campaign to reduce water consumption. Further drought response measures may be required through 2021–22 if dam levels continue to fall.

### 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. Like Seqwater, Sunwater has an ongoing DIP to ensure the safety and reliability of its dams and compliance with dam safety guidelines into the future. The DIP is an essential works program and a key determinant of Sunwater's financial performance over time.

Key projects for Sunwater in 2021–22 include:

- progressing planning for the Paradise Dam improvement project to identify the optimal option to enhance the dam to meet future extreme weather events
- progressing planning for the Burdekin Falls Dam improvement project
- continuing investigations into potentially raising Burdekin Falls Dam
- continuing work to deliver efficiency improvements to the Mareeba-Dimbulah Water Supply Scheme.

## 9.2 Finances and performance

### 9.2.1 Earnings before interest and tax

Total PNFC Sector earnings before interest and tax (EBIT) for 2020–21 of \$2.717 billion are consistent with the \$2.715 billion forecast at the 2020–21 Queensland Budget. Across the forward estimates, PNFC Sector EBIT is expected to increase to \$2.851 billion by 2021–22 and decline to \$2.085 billion by 2024–25, with a similar trend reflected across all sectors except ports.

The electricity network sector EBIT is estimated to fall by around one-third in 2020–21 (compared to 2019–20 levels) and remain lower over the forward estimates, driven by EQL's regulated revenue determinations for the 2020–25 period and, to a lesser extent, by Powerlink's upcoming regulated revenue determination for the 2022–2027 period (currently under review by the AER).

From 2021–22, electricity generation EBIT is forecast to decline year-on-year with wholesale price expectations remaining subdued over the forward estimates. Low and sustained wholesale electricity prices are expected over the forward estimates in Queensland and the broader National Electricity Market, driven by the increased penetration of renewable energy.

While recent and planned investments in renewable energy projects by Queensland GOCs will complement the portfolio of existing baseload assets, given the broader market forces, earnings from Queensland generation GOCs are expected to be generally lower over this period.

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

Water sector EBIT in 2020–21 is expected to be \$180 million higher than forecast at the 2020–21 Budget, due to deferred expensing of DIP works, as well accounting adjustments to reflect Sunwater's specific liability for the 2011 South East Queensland Floods class action following a settlement agreement. Over the forward estimates, earnings are supported by the upwards trend associated with the South East Queensland bulk water price path, offset by expenses from Sunwater's DIP.

**Table 9.2 Earnings before interest and tax<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Electricity Networks	1,795	1,179	1,198	1,276	1,241	1,185	1,144
Electricity Generation	(469)	572	425	478	333	119	62
Rail	255	301	296	335	337	294	292
Ports	159	192	195	209	222	245	259
Water	255	517	697	598	595	479	435
Other <sup>2</sup>	(90)	(45)	(95)	(45)	(92)	(100)	(107)
<b>Total PNFC Sector</b>	<b>1,905</b>	<b>2,715</b>	<b>2,717</b>	<b>2,851</b>	<b>2,636</b>	<b>2,222</b>	<b>2,085</b>
Notes:							
1. Numbers may not add due to rounding.							
2. Includes other public corporations.							

### 9.2.2 Borrowings

Entities in the PNFC Sector use debt financing as a source of funds for asset renewal and capital investments, and to maintain an optimal 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 debt management, 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 borrowings on key financial and performance related indicators.

Importantly, PNFC sector entity asset values are a relevant factor in considering overall PNFC sector entity borrowings. On average, for 2020-21, PNFC sector entities borrow around 58 per cent of their asset values.

For the PNFC Sector as a whole, increases in borrowings are more than offset by increases in the value of total assets over time, with the ratio of borrowings to total assets falling to around 56 per cent by 2024-25.

Public ownership of electricity, port, rail and water infrastructure provides the Queensland Government with opportunities to achieve better outcomes for all Queenslanders. In the electricity sector, through public ownership, the government can put downward pressure on electricity prices by ensuring a safe and reliable supply of electricity while creating new jobs across the industry. The government monitors gearing levels of the GOCs to target metrics consistent with an investment grade credit rating and comparable with similar entities in their respective sectors.

Total PNFC Sector borrowings for 2020–21 are estimated to be \$40.742 billion, or \$222 million less than forecast at the 2020–21 Budget. The decrease is primarily due to a reduction in the value of derivative positions held by GOCs in the electricity generation sector, with falling wholesale electricity prices having a favourable price impact on liabilities.

Over the forward estimates, total PNFC Sector borrowings will remain relatively stable over the forward estimates, increasing to \$41.806 billion by 2024–25, primarily driven by higher capital expenditure in the rail and electricity network sectors, and partly offset by reduced borrowings in the electricity generation sector (from unwinding of derivative positions and/or principal debt repayment) and water sector.

Borrowings in the water sector are largely attributable to Seqwater, which currently holds \$9.426 billion of debt. This 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 reduce across the forward estimates, with price path debt repayment forecast to commence in 2021–22.

Port sector borrowings are forecast to increase modestly to \$1.160 billion by 2024–25, with increases to fund major capital works and infrastructure projects by the Port of Townsville and Ports North.

**Table 9.3 Borrowings<sup>1</sup>**

	<b>2019–20 Outcome \$ million</b>	<b>2020–21 Budget \$ million</b>	<b>2020–21 Est. Act. \$ million</b>	<b>2021–22 Projection \$ million</b>	<b>2022–23 Projection \$ million</b>	<b>2023–24 Projection \$ million</b>	<b>2024–25 Projection \$ million</b>
Electricity Networks	23,050	23,830	24,010	24,255	24,322	24,454	24,637
Electricity Generation	2,655	1,845	1,409	1,571	1,440	1,450	1,431
Rail	3,746	4,093	4,087	4,412	4,683	4,898	5,102
Ports	1,086	1,090	1,085	1,113	1,151	1,160	1,160
Water	9,985	9,937	9,982	9,796	9,553	9,345	9,346
Other <sup>2</sup>	178	169	168	158	147	138	130
<b>Total PNFC Sector<sup>3</sup></b>	<b>40,700</b>	<b>40,964</b>	<b>40,742</b>	<b>41,306</b>	<b>41,296</b>	<b>41,445</b>	<b>41,806</b>
Total Assets	70,840	70,887	70,012	71,678	72,904	74,092	75,194
Notes:							
1. Numbers may not add due to rounding.							
2. Includes other public corporations.							
3. Total PNFC Sector comprises borrowing with QTC, leases and other similar arrangements, and securities and derivatives.							

### 9.2.3 Returns to government

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

#### Dividends

Dividends generated by the PNFC Sector form part of consolidated revenue used to fund a range of government services. The GOC Act provides for the payment of dividends, with the dividend policies of GOCs determined by government. Each year, GOC boards make a dividend recommendation for government consideration.

Total PNFC Sector dividends for 2020–21 are expected to be \$419 million, or \$211 million less than forecast at the 2020–21 Budget, with increases in the electricity networks and water sectors more than offset by decreases in the electricity generation sector.

In the water sector, higher dividends in 2020–21 from Sunwater are due to deferred expensing of DIP works, while in the electricity generation sector, lower dividends correspond primarily to declining profitability from subdued wholesale electricity prices.

Over the forward estimates, lower expected profits translate into lower dividends, with decreases in the electricity networks and generation sectors from 2021–22 only partly offset by increases in the ports sector. Total PNFC Sector dividends are expected to rise to \$568 million in 2021–22 then decline year-on-year to \$456 million by 2024–25.

Electricity network dividends are expected to fall to \$129 million in 2020–21, from \$532 million in 2019–20, due to the AER's revenue determination leading to an expected fall in EQL's earnings, with a modest recovery thereafter.

Electricity generation dividends are lower in 2020–21 and 2021–22 relative to previous years, with the entry of significant volumes of renewables boosting supply into the grid and putting sustained downward pressure on wholesale electricity prices. Lower wholesale prices driven by the influx of renewable generation impacts all generators in the sector.

Given the soft market outlook, dividends from the GOC generation sector have not been assumed in the later years of the forward estimates. In addition, the recent incident at Callide Power Station is expected to reduce returns to government from CS Energy in 2020–21, although it is too early to ascertain any longer-term implications.

Ports sector dividends are forecast to increase over the forward estimates in line with earnings.

In the water sector, dividends are expected to be modest over the forward estimates due to the repayment of price path debt by Seqwater and DIP costs. At this stage, only the Mount Isa and Gladstone Area Water Boards are forecasting dividends from 2021–22.

**Table 9.4 Dividends<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Electricity Networks	532	106	129	188	186	165	150
Electricity Generation	305	278	23	98	..	..	..
Rail	119	142	141	162	204	167	153
Ports	110	97	101	111	121	136	144
Water	5	8	26	10	11	10	9
Other <sup>2</sup>	15	..	..	..	..	..	..
<b>Total PNFC Sector</b>	<b>1,086</b>	<b>630</b>	<b>419</b>	<b>568</b>	<b>523</b>	<b>477</b>	<b>456</b>

Notes:

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

### Tax equivalent payments

Tax equivalent payments (TEPs) are paid by 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 businesses and their private sector counterparts.

In line with the trend in earnings growth, TEPs are expected to increase from \$379 million in 2020–21 to \$444 million in 2021–22, and then decrease year-on-year to \$285 million by 2024–25.

**Table 9.5 Tax equivalent payments<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Electricity Networks	358	158	159	195	198	191	187
Electricity Generation	232	163	117	117	68	17	13
Rail	55	51	40	71	56	27	11
Ports	56	50	50	55	60	66	68
Water	12	4	6	5	6	5	5
Other <sup>2</sup>	3	5	5	1	1	..	..
<b>Total PNFC Sector</b>	<b>716</b>	<b>431</b>	<b>379</b>	<b>444</b>	<b>387</b>	<b>306</b>	<b>285</b>

Notes:

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

## Competitive Neutrality Fees

Competitive Neutrality policy requires that public sector businesses, including GOCs, should not have a competitive advantage (or disadvantage) over the private sector solely due to their government ownership. A key application of this policy is the competitive neutrality fee (CNF).

The CNF is applied to a GOC's cost of debt to neutralise any cost of funds advantage by way of government ownership on the basis of GOCs' ability to borrow funds at a lower rate than private sector competitors given the government's credit strength.

In general, changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand-alone credit rating.

CNF payments by the PNFC Sector are expected to be \$187 million in 2020–21, increasing year-on-year to 2024–25, primarily due to higher payments by EQL in accordance with an increase to its borrowings to fund capital expenditure. CNF payments by other sectors are largely unchanged over the forward estimates.

**Table 9.6 Competitive neutrality fee payments<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Electricity Networks	106	118	130	150	159	166	162
Electricity Generation	16	15	15	14	11	10	10
Rail	33	27	27	25	24	27	31
Ports	10	10	10	10	9	8	8
Water	5	4	4	4	5	6	6
<b>Total PNFC Sector</b>	<b>170</b>	<b>175</b>	<b>187</b>	<b>203</b>	<b>209</b>	<b>216</b>	<b>217</b>
Notes:							
1. Numbers may not add due to rounding.							

## 9.2.4 Community service obligation and rail transport services contract payments

For public policy reasons, the government can direct GOCs to perform activities that are not in their commercial interest (for example, discounting rural irrigation water prices to stimulate the regional economy). In these situations, the government can compensate the GOC through the payment of a community service obligation (CSO) for the cost of delivering the uncommercial part of the good or service.

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

Seqwater and Sunwater also own and operate water supply schemes, where irrigation prices for some schemes are set below the level necessary to recover the costs of supply. The government provides a CSO to offset the reduced revenue.

Similarly, TSC payments are made to Queensland Rail to deliver rail passenger services at non-commercial (subsidised) prices for commuter and tourism markets.

Total PNFC Sector CSO and TSC payments for 2020–21 are expected to be \$2.414 billion, in line with the \$2.434 billion forecast at the 2020–21 Budget. Over the forward estimates, CSO and TSC payments are expected to increase year-on-year to \$2.725 billion by 2024–25. This trend is largely driven by TSC payments, which 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 growth in the number of rail services offered.

Relative to 2020–21, water CSO payments are forecast to increase over the forward estimates, due to the government’s election commitment to discount rural irrigation water prices for Sunwater and Seqwater customers for the next 3 years. There is no CSO forecast in 2024–25 because irrigation prices have not yet been set beyond 2023–24.

**Table 9.7 Community service obligation payments and transport services contracts<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Electricity Networks	498	454	454	502	505	490	486
Rail	1,794	1,959	1,940	2,074	2,131	2,163	2,238
Water	9	21	21	35	27	26	..
<b>Total PNFC Sector</b>	<b>2,302</b>	<b>2,434</b>	<b>2,414</b>	<b>2,612</b>	<b>2,663</b>	<b>2,679</b>	<b>2,725</b>
Notes:							
1. Numbers may not add due to rounding.							

### 9.2.5 Equity movements

Levels of GOC debt and equity are managed by the government to maintain an optimal and efficient capital structure. Corporations may apply different target capital structures to optimise value and support business operations. Equity movements account for changes in contributed equity and special dividends.

Total PNFC Sector equity withdrawals for 2020–21 are expected to be \$332 million, in contrast to expected injections of \$167 million forecast at the 2020–21 Budget. The variation is primarily due to adjustments in the electricity networks and generation sectors.

In the electricity networks sector, equity adjustments are made to maintain the gearing ratios of these businesses over time. Powerlink will receive \$40 million from 2021–22 to upgrade transmission lines to support the development of Neoen’s Kaban Green Power Hub.

In the electricity generation sector, equity movements primarily relate to the \$250 million in funding allocated to CleanCo for its Karara Wind Farm. Other notable equity movements include a \$206 million special dividend from Queensland Treasury Holdings in 2020–21 and the \$2 billion in funding from the Queensland Renewable Energy and Hydrogen Jobs Fund (with \$1 billion of this equity funding allocated over the forward estimates).

Queensland Rail is expected to receive an equity injection of \$35 million in 2022–23 to support its capital program, while Sunwater is expected to receive an equity injection of \$100 million in 2023–24 to contribute toward essential dam safety upgrades at Burdekin Falls Dam.

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 \$28 million to upgrade facilities at the Ports North-owned Cairns Marine Precinct.

Gladstone Ports Corporation (GPC), under a project agreement with the Australian Government, is to receive \$10 million for developing new export infrastructure at the Port of Bundaberg, subject to completing project delivery milestones over 2021–22 and 2022–23.

GPC is also supporting the implementation of the Queensland Government’s \$21 million Maritime Jobs and Coastal Shipping election commitment through both a funding commitment and the completion of a business case into a potential new portainer crane at Gladstone, subject to approval by shareholding Ministers.

Sunwater is expected to receive a \$2.9 million equity injection in 2022–23, to be passed onto the Southern Downs Regional Council as capital grant funding, to upgrade infrastructure at Leslie Dam.

**Table 9.8 Equity movements<sup>1</sup>**

	2019–20 Outcome \$ million	2020–21 Budget \$ million	2020–21 Est. Act. \$ million	2021–22 Projection \$ million	2022–23 Projection \$ million	2023–24 Projection \$ million	2024–25 Projection \$ million
Electricity Networks	(67)	(80)	(177)	(50)	(70)	(70)	(85)
Electricity Generation	(5)	43	3	145	105	..	..
Rail	..	..	..	..	35	..	..
Ports	30	76	45	35	23	20	..
Water	(3)	..	..	..	3	100	..
Other <sup>2</sup>	323	128	(202)	350	365	270	100
<b>Total PNFC Sector</b>	<b>279</b>	<b>167</b>	<b>(332)</b>	<b>480</b>	<b>461</b>	<b>320</b>	<b>15</b>

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 Queensland Treasury Holdings, and indicative funding allocations for Queensland Renewable Energy Zones and the Queensland Renewable Energy and Hydrogen Jobs Fund.