8 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 maintaining public ownership of our assets, and expects these businesses to operate commercially and efficiently, and to work towards continually improving services to Queenslanders.
- The PNFC Sector is expected to achieve earnings before interest and tax (EBIT) of $3.519 billion in 2022–23, representing a $1.525 billion increase from 2021–22. While PNFC Sector earnings in 2021–22 are expected to be lower compared to the 2021–22 Budget, sector-wide earnings are forecast to increase from 2022–23 with an improvement in the performance of the electricity sector.
- PNFC Sector borrowings for 2021–22 are around $7.260 billion higher than forecast at the 2021–22 Queensland Budget. This is mainly due to movements in the value of electricity hedging contracts entered into prior to an upward shift in market conditions. Movements over the forward estimates are primarily due to the accounting treatment of short-term financial contracts held by energy government-owned corporations (GOCs).
- In 2021–22, the government is supporting businesses to invest for the future, with total dividends of around $580 million to be retained by GOCs (including the Queensland Investment Corporation) for investment in critical infrastructure and growth initiatives. This decision recognises the need to capitalise businesses to undertake strategically important investment in transformational growth opportunities and government's commitment to public ownership for the benefit of all Queenslanders.
- Since 2020, Queensland Government generators have announced ownership and offtake agreements in renewable energy projects which will add almost 3 gigawatts of clean energy to Queensland. In 2021–22, Stanwell and CS Energy also announced they are progressing large-scale batteries at Tarong and Chinchilla respectively, to support the continued uptake of renewable energy across Queensland.
- The Queensland Government has allocated $385 million in 2022–23 to support all households facing cost of living pressures, with each Queensland household to receive a $175 Cost of Living rebate on their electricity bill in 2022–23. Including previous Asset Ownership Dividends and the COVID-19 Utility Rebate, this will be the government's sixth rebate provided since 2018, with the government having allocated a total of $1.185 billion to provide households with a total of $575 in rebates.
- These payments complement the government's longstanding commitment that all Queenslanders pay a similar price for electricity no matter where they live, under the Uniform Tariff Policy (UTP). To support the UTP, the government provides an annual Community Service Obligation Payment, costing $635 million in 2022–23.

- Queensland Rail continues to work with external partners to progress significant new rail infrastructure including the Cross River Rail project, implementation of the European Train Control System to improve operational efficiency, new stations and station accessibility upgrades and additional train stabling capacity.
- Major port projects continuing in 2022–23 include the Channel Capacity Upgrade at the Port of Townsville to improve freight export and import opportunities for North Queensland. Planning will also continue on expanding the Cairns Marine Precinct with a Common User Facility to enable the maintenance, repair, and overhaul of more and larger ships in Cairns.
- Through state-owned businesses Seqwater and Sunwater, the Queensland Government is delivering additional water supply, fortifying the flood resilience of water infrastructure and ensuring the ongoing safety and reliability of dams. This includes continued construction of the $367.2 million Rookwood Weir, the $125.4 million Mount Crosby Flood Resilience Program and $95.2 million South West Pipeline project, as well as delivery of the Toowoomba to Warwick Pipeline estimated at more than $300 million. $54.2 million will also be invested in 2022–23 for planning and early works on improvements to Paradise, Burdekin Falls, Somerset and Lake Macdonald Dams.

8.1 Context

Entities comprising the PNFC Sector provide vital services such as electricity supply and distribution, water supply, and rail and port services.

Queensland GOCs, declared by regulation 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 with similar provisions 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 to sustain ongoing investment and performance.

Returns from the PNFC Sector contribute to consolidated revenue and are used to pay for various government services.

Community Service Obligation (CSO) 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 policy ensures that electricity prices in regional Queensland are much lower than would otherwise be the case.

The commercial nature of PNFC Sector 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. Public ownership of electricity, port, rail and water infrastructure provides the Queensland Government with opportunities to support strategic investment in key sectors of a growing economy to achieve better outcomes for all Queenslanders.

Table 8.1 Key financial aggregates[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Revenue	13,240	12,237	13,750	13,589	13,744	13,572	13,774
Expenses	12,078	11,463	13,212	12,389	12,349	12,479	12,710
Net Operating Balance	**1,162**	**774**	**538**	**1,199**	**1,395**	**1,093**	**1,064**
PNFA[2]	3,157	3,713	3,055	3,334	3,025	3,266	3,538
Assets	71,543	71,678	75,962	74,953	75,398	75,905	76,774
Borrowings	41,558	41,305	48,566	44,334	42,501	41,863	41,318

Notes:
1. Numbers may not add due to rounding.
2. PNFA: Purchases of non-financial assets.

8.1.1 Electricity networks

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

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 15,345 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

Energy Queensland Limited (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, including Ergon Energy Network, Ergon Energy Retail, Energex, and Yurika.

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

Yurika is 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 April 2022, the AER published its transmission determination for Powerlink for the 2022–27 period, which is supporting a reduction in network costs charged in 2022–23 electricity bills for the typical residential and small business customer.

Similarly, in June 2020, the AER published its distribution determination for Energex and Ergon Energy Network (as electricity distribution providers) for the 2020–25 period, also leading to lower network costs for average Queensland residential households and small businesses.

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 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 our publicly-owned generators – CleanCo, CS Energy, and Stanwell.

In 2022–23, construction will commence on CleanCo's 102.6 megawatt (MW) Karara Wind Farm in the Darling Downs. Construction will also commence or continue on new wind and solar farms across Queensland with which our generators have entered long-term power purchase agreements. Since 2020, Queensland Government generators have announced ownership and offtake agreements in renewable energy projects which will add almost 3 gigawatts of clean energy to 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. 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, since 2020, CleanCo has committed to support a further 1,100 MW in new renewable generation capacity. This will be achieved by power agreements with wind and solar farms in the Darling Downs, Western Downs, and Far North Queensland, and through CleanCo's 102.6 MW Karara Wind Farm which it will build, own and operate.

CleanCo is also supporting the sustainable energy goals of major commercial customers, including BHP and Coles, by entering long-term agreements to supply firm renewable energy.

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 2021–22, CS Energy announced its partnership with Senex Energy to develop the Kogan Renewable Hydrogen Project near Chinchilla. Through the Queensland Renewable Energy and Hydrogen Jobs Fund, CS Energy has been allocated $28.9 million towards this project.

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 sells electricity directly to large commercial and industrial customers in Queensland and interstate, 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 in Central Queensland, with construction commencing in 2022–23. In 2022, Stanwell also announced an offtake agreement with the Blue Grass Solar Farm near Chinchilla in the Western Downs.

Through the Queensland Renewable Energy and Hydrogen Fund, Stanwell has been allocated $192.5 million towards its investment in the 252 MW Wambo Wind Farm, which it will develop in partnership with global renewables developer, Cubico. Stanwell will own 50 per cent of the wind farm and offtake the remaining 50 per cent through a power agreement. Construction of the wind farm is expected to commence in 2022 and be operational by 2024.

Stanwell is also progressing feasibility work on a large-scale hydrogen export facility in Gladstone as part of a consortium with several Japanese companies (including Iwatani Corporation) and Australian energy infrastructure business, APA Group. Stanwell has been allocated $15 million from the Queensland Renewable Energy and Hydrogen Jobs Fund to support the project.

Box 8.1 Renewable Energy and Storage

The Queensland Government continues to drive investment in our state's renewable energy future, including through the $2 billion Queensland Renewable Energy and Hydrogen Jobs Fund (the Fund). Investments through the Fund will help decarbonise the state's energy system and demonstrate Queensland's attractiveness to domestic and international investors to drive economic growth.

This Fund is enabling Queensland's energy GOCs to invest in commercial renewable energy and hydrogen projects, and supporting infrastructure, including in partnership with the private sector. The Fund is demonstrating our commitment to drive investment and economic growth across Queensland, building the infrastructure and creating the jobs that will transform the state's energy system and achieve our 50 per cent Queensland Renewable Energy Target by 2030 and net zero emissions by 2050. Queensland is leveraging its competitive advantage of a natural abundance of world-class wind and solar resources, as it harnesses that potential to make the state a renewable energy and hydrogen leader.

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.

With an allocation from the Fund, Stanwell is investing $192.5 million in the 252 MW Wambo Wind Farm near Dalby. Stanwell's investment includes a 50 per cent direct equity stake in the project, and an offtake agreement for the remaining renewable energy generation. The project is being delivered in partnership with global renewables developer Cubico, and will support up to 200 jobs during construction and up to 20 ongoing operations and maintenance jobs.

Through projects like this, we are strengthening our commitment to maintain public ownership of generation.

Queensland is also investing to deliver the energy storage capacity essential to support Queensland's energy transformation and deliver affordable, reliable and clean energy for Queenslanders.

In 2021–22, $22 million was committed over 2 years to undertake a feasibility study for a pumped hydro energy storage project at Borumba and concept studies for other sites. This Budget allocates up to $48 million more for pumped hydro energy storage investments, including $13 million to fast-track a final investment decision on the proposed Borumba pumped hydro energy storage project and $35 million towards feasibility work on a second pumped hydro energy project.

To support the continued uptake of renewable energy across Queensland, CS Energy is investing $150 million to deliver the 100 MW Chinchilla battery, and Stanwell is investing $207 million to deliver a 150 MW battery at Tarong.

These investments will further strengthen the supply of affordable, reliable and clean energy across Queensland, while also supporting regional jobs and investment.

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).

In 2022–23, 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 supporting jobs in regional areas.

8.1.4 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, Port of Townsville Limited, 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.

Since 2020, government-owned ports have provided support to local communities affected by COVID-19 and remain committed to implementing appropriate measures to respond to the impacts of COVID-19 on staff, businesses and communities.

Other port GOC projects occurring throughout 2022–23 include:

- the continuation of the $232 million Channel Capacity Upgrade at the Port of Townsville
- ongoing refurbishments and construction of the $63.9 million replacement shiploader for GPC's RG Tanna Coal Terminal
- expansion of the Cairns Marine Precinct with delivery of 2 new wharves as part of a $32 million early works package and working with the Australian Government to progress a major Common User Facility following a $150 million commitment by the Queensland Government
- working with proponents in Gladstone, Townsville and major ports to identify and progress potential hydrogen opportunities at the respective ports.

8.1.5 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 and flood mitigation. 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 2022–23 include:

- completion of the South West Pipeline to connect Beaudesert to the South East Queensland Water Grid to ensure a reliable long-term water supply
- further investment into the Mount Crosby Flood Resilience Program including replacement and relocation of the existing East Bank electrical substation, construction of a new two-lane road bridge adjacent to the Mount Crosby Weir, and electrical infrastructure upgrades at the East Bank Pump Station
- delivery of the Toowoomba to Warwick Pipeline to provide Warwick and surrounding communities a reliable drought contingency
- planning activities for the Somerset Dam improvement project.

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 2022–23 include:

- continuing planning and commencing early works for the Paradise Dam improvement project to enhance the dam to meet future extreme weather events
- continuing 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
- continuing construction of Rookwood Weir.

8.2 Finances and performance

8.2.1 Earnings before interest and tax

Estimated Total PNFC Sector EBIT of $1.994 billion for 2021–22 is $857 million lower than forecast at the 2021–22 Queensland Budget. Across the forward estimates, PNFC Sector EBIT is expected to increase to $3.581 billion by 2023–24 and decline to $2.585 billion by 2025–26.

The electricity network sector EBIT is estimated to fall slightly in 2022–23 (compared to 2021–22 levels) and remain so over the forward estimates, driven by EQL's regulated revenue determinations for the 2020–25 period and Powerlink's regulated revenue determination for the 2022–2027 period.

For 2021–22, the electricity generation sector is no longer forecasting a positive EBIT, primarily reflecting movements in the value of hedging contracts entered into prior to recent market price volatility. Generators enter appropriate hedging contracts to provide earnings certainty, including on the Australian Securities Exchange. These adjustments are expected to be temporary with profitability expected to return from 2022–23, providing opportunities for new investment to support Queensland's energy transformation, and improved returns to the state.

Port sector EBIT in 2021–22 aligns with the 2021–22 Queensland Budget and is forecast to trend upwards over the forward estimates, reflecting the various long-term revenue contracts with customers and is supported by cost recoveries from the completion of revenue generating capital expansions.

Water sector EBIT in 2021–22 also aligns with the 2021–22 Queensland Budget but is forecast to trend downwards over the forward estimates, due to Sunwater's delivery of its substantial DIP.

Stadiums Queensland, a major contributor to the 'Other' PNFC sector, operates and maintains the state's portfolio of major sporting stadiums and high performance and community venues. Earnings will be offset by expenses over the forward estimates as venues are improved and maintained to a contemporary standard in the lead up to the Brisbane 2032 Olympic and Paralympic Games.

Table 8.2 Earnings before interest and tax[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	1,455	1,276	1,382	1,312	1,184	1,138	1,306
Electricity Generation	229	478	(457)	1,067	1,472	797	422
Rail	342	335	281	312	266	341	332
Ports	217	209	206	219	243	258	261
Water	680	598	598	594	474	443	331
Other[2]	(97)	(45)	(15)	15	(58)	(64)	(66)
Total PNFC sector	**2,826**	**2,851**	**1,994**	**3,519**	**3,581**	**2,913**	**2,585**

Notes:

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

8.2.2 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 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 borrowings. On average, for 2022–23, PNFC Sector entities borrow around 55 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 54 per cent by 2025–26.

Total PNFC Sector borrowings for 2021–22 is estimated at $48.566 billion, or around $7.260 billion higher than forecast at the 2021–22 Budget. Movements over the forward estimates are primarily due to the accounting treatment of short-term financial contracts held by energy GOCs.

Borrowings in the water sector are largely attributable to Seqwater, which currently holds $9.185 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 forecast to be repaid by 2027–28.

Port sector borrowings are forecast to increase modestly to $1.125 billion by 2025–26, with increases to fund major capital works and infrastructure projects by the Port of Townsville and Ports North.

Table 8.3 Borrowings and total assets[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	23,738	24,413	23,907	24,361	24,477	24,590	24,587
Electricity Generation	2,756	1,397	9,533	4,817	2,987	2,474	2,194
Rail	3,829	4,410	4,130	4,401	4,569	4,622	4,663
Ports	1,084	1,115	1,056	1,064	1,106	1,125	1,125
Water	9,983	9,812	9,782	9,543	9,224	8,922	8,627
Other[2]	168	158	158	147	138	130	122
Total PNFC sector	**41,558**	**41,305**	**48,566**	**44,334**	**42,501**	**41,863**	**41,318**
Total Assets	71,543	71,678	75,962	74,953	75,398	75,905	76,774

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

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 2021–22 are expected to be $193 million, or $375 million less than forecast at the 2021–22 Queensland Budget. This outcome reflects the government's decision to allow the energy, ports, and water GOCs to retain 2021–22 dividends otherwise payable for reinvestment in critical infrastructure and growth initiatives. In the energy sector, this will include investment in new energy assets to support the energy transformation and put downward pressure on electricity prices through supporting increased supply and storage. This decision recognises the government's commitment to public ownership, and the potential to leverage investment opportunities to grow our businesses and deliver future revenue benefits for Queenslanders.

Over the forward estimates, the PNFC Sector is expected to deliver cumulative dividends of $2.854 billion, with annual dividends increasing to 2023–24 and declining thereafter, to $588 million by 2025–26.

Electricity network dividends are expected to fall to $134 million in 2024–25, due to the AER's revenue determination leading to an expected fall in EQL's and Powerlink's earnings, with a modest recovery thereafter.

The electricity generation sector is forecast to provide dividends from 2022–23, with dividends increasing to 2023–24 and declining to 2025–26. This trend reflects earnings growth of these businesses, with the current wholesale market environment supporting returns in the next couple of years, and a return to more stable levels over the forward estimates. As the energy transformation accelerates, the entry of significant volumes of renewables will continue to boost supply into the grid and put sustained downward pressure on wholesale electricity prices. Lower wholesale prices driven by the influx of renewable generation impacts all generators in the sector.

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 debt by Seqwater and DIP costs. Only the Mount Isa and Gladstone Area Water Boards are forecasting dividends over the forward estimates.

Table 8.4 Dividends[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	308	188	..	233	156	134	230
Electricity Generation	108	98	..	284	405	113	38
Rail	183	162	180	168	152	191	163
Ports	111	111	..	118	133	142	142
Water	25	10	13	12	13	13	15
Total PNFC sector	**735**	**568**	**193**	**815**	**859**	**592**	**588**

Note:

1. Numbers may not add due to rounding.

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 government-owned businesses and their private sector counterparts.

In line with the trend in earnings growth, TEPs are expected to increase from $427 million in 2021–22 to $550 million in 2023–24, and then decrease to $406 million by 2025–26.

Table 8.5 Tax equivalent payments[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	197	195	199	156	123	131	178
Electricity Generation	108	117	85	219	307	195	121
Rail	54	71	65	81	47	58	32
Ports	51	55	60	61	67	69	67
Water	8	5	18	6	7	7	8
Other[2]	22	1	..	..	1	1	..
Total PNFC sector	**441**	**444**	**427**	**524**	**550**	**460**	**406**

Notes:

1. Numbers may not add due to rounding.
2. 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 $205 million in 2021–22, increasing to $221 million in 2023–24 before decreasing to $212 million in 2025–26. Total CNF is primarily driven by the electricity networks sector with payments by EQL increasing to 2023–24, 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 8.6 Competitive neutrality fee payments[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	129	150	152	165	168	159	154
Electricity Generation	15	14	14	12	12	14	14
Rail	31	25	25	28	28	30	31
Ports	10	10	9	8	7	8	8
Water	4	4	4	5	5	4	4
Total PNFC sector	**190**	**203**	**205**	**218**	**221**	**215**	**212**

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, 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 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. The one-off increase in the forecast CSO cost for 2022–23 is due to regulated revenue under-recoveries in previous years being recovered in 2022–23.

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 2021–22 are expected to be $2.564 billion, in line with the $2.612 billion forecast at the 2021–22 Budget. Over the forward estimates, CSO and TSC payments are expected to increase to $2.844 billion by 2025–26. 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.

Water CSO payments are forecast to peak in 2021–22, due to commencement of the government's rural irrigation water price discount for Sunwater and Seqwater customers for the 3 years to 2023–24, before decreasing over the forward estimates as prices transition towards cost recovery. There is no CSO forecast in 2024–25 because irrigation prices have not yet been set beyond 2023–24.

Table 8.7 Community service obligation payments and transport services contracts[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	454	502	525	635	514	505	505
Rail	1,912	2,074	2,013	2,153	2,233	2,320	2,332
Water	20	35	26	24	23	7	7
Total PNFC sector	**2,386**	**2,612**	**2,564**	**2,812**	**2,770**	**2,832**	**2,844**

Note:

1. Numbers may not add due to rounding.

8.2.5 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.

In 2021–22, total PNFC Sector equity withdrawals are expected to be $87 million, with Powerlink delivering a $170 million special dividend offsetting equity contribution across the PNFC Sector. This compares to a $453 million equity contribution forecast at the 2021–22 Budget, with the difference due to the timing of funding requirements for approved allocations from the Queensland Renewable Energy and Hydrogen Jobs Fund.

In the electricity networks sector, equity adjustments are made to maintain the gearing ratios of these businesses over time, including special dividends. In 2021–22, Powerlink received $40 million from the Queensland Renewable Energy Zone allocation to upgrade transmission lines and support the connection of Neoen's Kaban Green Power Hub to the electricity grid.

In the electricity generation sector, equity movements primarily relate to allocations from the Queensland Renewable Energy and Hydrogen Jobs Fund for investments in renewables, storage, and hydrogen, and CleanCo's investment in the Karara Wind Farm.

In the ports sector, Port of Townsville is receiving $30 million in 2022–23 for the Channel Capacity Upgrade, with Ports North continuing works to upgrade facilities at the Cairns Marine Precinct. In 2022–23, GPC is forecast to receive $7 million from the Australian Government for the Hinkler Regional Deal, and potentially a further $7.7 million, subject to negotiation of an updated project agreement and completion of delivery milestones. GPC also received $5 million in 2021–22 for a co-contribution from the Australian Government for the Auckland Hill Harbour Outlook Economic Development project under the Regional Recovery Partnerships Program.

In 2022–23, Sunwater is receiving $2.9 million to upgrade infrastructure at Leslie Dam to access water when the dam is very low. Sunwater is also forecast to receive $100 million in 2023–24 towards dam improvements at Burdekin Falls Dam (subject to conditions).

Table 8.8 Equity movements[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
Electricity Networks	(97)	(90)	(130)	(70)	(70)	(180)	(257)
Electricity Generation	..	145	17	370	422	158	200
Rail	(8)	..	(5)	36	..	..	..
Ports	45	35	26	37	20	..	..
Water	..	..	..	3	100	..	..
Other[2]	(202)	363	4	43	143	310	603
Total PNFC sector	**(262)**	**453**	**(87)**	**418**	**615**	**288**	**546**

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 funding allocations for Queensland Renewable Energy Zones and the Queensland Renewable Energy and Hydrogen Jobs Fund.