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, and port services.
- The Queensland Government has a strong commitment to maintaining public ownership of its 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 $3.829 billion in 2023–24, a $1.482 billion increase from 2022–23. Sector-wide earnings over the forward estimates reflect the improved performance of the electricity sector.
- The 2023–24 Budget includes a landmark capital investment of around $19 billion over the forward estimates to deliver on the *Queensland Energy and Jobs Plan* (QEJP). The government's publicly-owned energy businesses are leading Queensland's energy transformation, investing in new wind, solar, storage and transmission, supported by the $4.5 billion Queensland Renewable Energy and Hydrogen Jobs Fund.
- As a cornerstone of the QEJP, the newly established Queensland Hydro will deliver up to 7 gigawatts (GW) of large-scale, long-duration pumped hydro. The government is also investing $5 billion in CopperString 2032, a 1,100-kilometre transmission line from Townsville to Mount Isa, and delivering a strong pipeline of renewable energy and storage projects.
- Increased borrowings over the forward estimates primarily reflect capital requirements to deliver the QEJP and investments to support water security. Key projects in the water sector include the Fitzroy to Gladstone Pipeline, Rookwood Weir, Mount Crosby Flood Resilience Program, Toowoomba to Warwick Pipeline, and South West Pipeline.
- Major transport sector projects continuing in 2023–24 include the Channel Capacity Upgrade at the Port of Townsville, expansion of the Cairns Marine Precinct, and a range of rail infrastructure projects to support the transformation of the Citytrain network.
- In 2022–23, PNFC Sector dividends are expected to be $511 million, or $304 million lower than forecast at the 2022–23 Budget, largely due to movements in the value of electricity hedging contracts. Returns from the PNFC Sector contribute to consolidated revenue and are used to pay for various government services, including investment into critical infrastructure delivered by PNFC Sector entities.
- The 2023–24 Budget delivers $1.483 billion in 2023–24 for additional electricity bill support to households and small businesses facing cost-of-living pressures. As part of this package, all Queensland households will automatically receive a $550 Cost of Living Rebate on their electricity bill in 2023–24, while around 600,000 vulnerable households will benefit from a higher $700 Cost of Living Rebate.

- Including the $550 Cost of Living Rebate in 2023–24, the government will have provided all Queensland households with a total of $1,125 in electricity rebates since 2018.
- These payments complement the government's longstanding commitment under the Uniform Tariff Policy that all Queenslanders pay a similar price for electricity no matter where they live. To support the Uniform Tariff Policy, the government provides an annual Community Service Obligation payment, costing $537 million in 2023–24.
- The new progressive coal royalty rates announced in the 2022–23 Budget ensure that Queenslanders receive a fair return on the state's valuable natural resources. The government is funding productivity-enhancing investments across regional Queensland, with $10 billion for PNFC Sector infrastructure projects supported by coal royalties in the energy, water, and ports sectors.

8.1 Context

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

Queensland government owned corporations (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 Queensland Hydro and Stadiums Queensland).

GOCs are accountable for their financial performance and must operate commercially and efficiently. These requirements are legislated under the GOC Act with similar provisions made in the enabling legislation of Queensland Rail and Seqwater. Entities incur costs and bear commercial risks in the delivery of their services or products, and target 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, including investment into critical infrastructure delivered by PNFC Sector entities.

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 for most customers 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 has a strong ongoing commitment to maintain public ownership of the entities in the PNFC Sector. Public ownership of electricity, port, rail, and water infrastructure provides the Queensland Government with opportunities to support strategic investment in a growing economy and achieve better outcomes for all Queenslanders.

Box 8.1 Reinvesting in the regions

The new progressive coal royalty rates announced in the 2022–23 Budget ensure that Queenslanders receive a fair return on this valuable natural resource. The uplift in royalties has allowed the Queensland Government to invest more than $16 billion towards economic and social infrastructure and essential services to meet the needs of Queenslanders across all regions of the state. Box 4.7 provides further detail.

In the 2022–23 Budget Update, the government committed to utilise the uplift in royalty revenue to fund $4 billion in productivity-enhancing investments across regional Queensland. This will support investments across energy, water, and ports sectors for projects which will underpin Queensland's future economic prosperity.

In this Budget, the government is providing an additional $6 billion in funding for the Borumba Pumped Hydro Energy Storage project. This brings the Government's total commitment to $10 billion for relevant regional PNFC sector infrastructure projects funded by the general government sector equity injections supported by coal royalties, and includes:

- $1.06 billion towards CopperString 2032, which will support the construction of the 1,100-kilometre transmission line from Townsville to Mount Isa, connecting Queensland's North West Minerals Province to the national electricity grid
- $7 billion towards state-owned, large-scale, long-duration pumped hydro, including $6 billion for the Borumba project over the construction period and $1 billion for the Pioneer-Burdekin project
- $550 million towards the Fitzroy to Gladstone Pipeline, enabling long term water security in the region
- $500 million for CleanCo to support a 2.3 GW portfolio of wind and solar projects in Central Queensland
- $440 million towards Sunwater's Burdekin Falls Dam Improvement and Raising Project, improving and raising the dam by two metres to further support water security, noting this is on top of the existing $100 million commitment towards the project
- $300 million for CS Energy to pursue investments in new wind projects and energy firming options to support future industrial decarbonisation in Central Queensland
- $100 million for Gladstone Port Corporation's Northern Land Expansion project, subject to approvals, supporting the release of additional land at Gladstone Port and the development of renewable energy and other industries

- $50 million for the replacement of North Queensland Bulk Ports' Bowen Wharf, with the plans, designs, and approvals subject to further consultation with stakeholders.

Table 8.1 Key financial aggregates[1]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Revenue	15,951	13,589	15,835	15,746	15,578	16,539	17,816
Expenses	14,888	12,389	14,887	15,116	14,951	15,541	16,499
Net Operating Balance	**1,062**	**1,199**	**948**	**630**	**626**	**998**	**1,317**
PNFA[2]	3,134	3,334	4,489	5,849	8,735	8,534	10,233
Assets	91,338	74,953	80,459	82,492	88,371	94,694	102,088
Borrowings	59,495	44,334	47,875	45,166	46,120	48,664	52,207

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

8.1.1 Electricity networks

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

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.

Powerlink

Powerlink owns, develops, operates, and maintains the electricity transmission network in Queensland. Its network spans approximately 1,700km from north of Cairns to the New South Wales border and comprises 15,345km 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.

Powerlink took carriage of the CopperString 2032 project in March this year, with early works expected to commence later in 2023, and construction in 2024. Under the QEJP, Powerlink is also progressing investments to deliver the Queensland SuperGrid and renewable energy zones.

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 has several 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 provides 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.

Box 8.2 CopperString 2032

The Queensland Government is investing $5 billion in CopperString 2032, a 1,100-kilometre transmission line from Townsville to Mount Isa that will connect Queensland's North West Minerals Province to the national electricity grid.

This project will unlock one of Australia's largest renewable energy zones and potentially more than $500 billion in new critical minerals in North Queensland. To be delivered by Powerlink, CopperString 2032 will connect vast renewable wind and solar resources with critical minerals mining and processing that can be used to make batteries and renewables.

CopperString 2032 is one of the most significant investments in economic infrastructure ever seen in North Queensland and has the potential to support around 800 direct jobs over its 6-year construction period (to 2029), and thousands more in critical minerals mining and renewable energy industries. Early works are expected to start later in 2023 and construction in 2024.

In the 2023–24 Budget, $1.06 billion has been allocated towards CopperString 2032, made available from the progressive coal royalties introduced at the 2022–23 Budget.

This project is being delivered as part of the QEJP, a pathway to transition Queensland to clean, reliable and affordable power.

8.1.2 Electricity generation

Queensland has three electricity generation GOCs – CleanCo, CS Energy and Stanwell. To date, these GOCs have committed to own or offtake over 2.4 GW of new renewable generation, 850 megawatts (MW) of new large-scale batteries, and are progressing a range of additional investment opportunities.

Public ownership of generation assets positions Queensland to transform the state's energy system and deliver the government's decarbonisation objectives — 50 per cent renewables by 2030, 70 per cent by 2032, and 80 per cent by 2035 — and reach net zero emissions by 2050.

CleanCo

CleanCo owns and operates a portfolio of low and no emissions generation assets. In addition to its foundation portfolio, CleanCo is on track to meet its commitment to deliver at least 1,400 MW of new renewable energy by 2025. This is being achieved through power agreements with wind and solar farms in the Darling Downs, Western Downs, and Far North Queensland, and to build, own and operate Swanbank Battery.

CleanCo is continuing to grow its renewable project pipeline, working with partners to develop a publicly owned and operated renewable project portfolio of up to 2.3 GW in Central Queensland. CleanCo is also supporting the sustainable energy goals of major commercial customers, including BHP and Coles, by entering long-term agreements to supply firmed renewable energy.

CS Energy

CS Energy is a major supplier of electricity across Queensland, with an energy portfolio of around 3,500 MW, including the wholly-owned Callide B and Kogan Creek Power Stations and a 50 per cent 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 electricity requirements of the Boyne Island Aluminium Smelter.

In line with the QEJP, CS Energy is diversifying its portfolio as it invests in renewable generation, storage and gas-peaking capacity, and hydrogen development. CS Energy's investments in projects such as the 200 MW Greenbank Battery, Brigalow hydrogen-ready gas peaking plant at Kogan Creek, wind farms in Central Queensland, and the Kogan Renewable Hydrogen Project near Chinchilla, are all being supported by the Queensland Renewable Energy and Hydrogen Jobs Fund.

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.

Stanwell

Stanwell is a major supplier of electricity across Queensland, with an energy portfolio of around 3,300 MW from its three coal-fired power stations in Queensland. Stanwell also sells electricity directly to large commercial and industrial customers in Queensland and interstate.

Stanwell is advancing a pipeline of new energy projects across Queensland, focusing on renewable generation, storage, and hydrogen. Stanwell has entered energy offtake agreements with several renewable projects, including the Mount Hopeful and Clarke Creek Wind Farms in Central Queensland, and the Blue Grass Solar Farm and MacIntyre Wind Farms in Southern Queensland.

In 2023–24, Stanwell will be supported by the Queensland Renewable Energy and Hydrogen Jobs Fund to continue the development of the Wambo Wind Farm in partnership with global renewables developer, Cubico Sustainable Investments, progress the Tarong West Wind Farm, and also undertake a Front End Engineering Design Study of the Central Queensland Hydrogen Project near Gladstone, with a consortium of partners.

Box 8.3 Queensland Energy and Jobs Plan

The *Queensland Energy and Jobs Plan* outlines the state's pathway to transform the energy system over the next 10 to 15 years to deliver clean, reliable, and affordable power, creating a platform for strong economic growth and continued investment.

The QEJP charts an ambitious infrastructure investment pathway to 2035, including two large-scale pumped hydros in regional Queensland, 22 GW of new renewable energy, and major new transmission lines across the state which will form Queensland's SuperGrid.

In total, the 2023–24 Budget includes a landmark capital investment of around $19 billion across the forward estimates to support the *Queensland Energy and Jobs Plan.*

The government's publicly-owned energy businesses are leading Queensland's energy transformation, investing in new wind, solar, storage and transmission, supported by the $4.5 billion Queensland Renewable Energy and Hydrogen Jobs Fund. To date, $2.7 billion has been allocated from the Fund, including:

- $192.5 million for Stanwell's 252 MW Wambo Wind Farm near Dalby, $776.1 million for Stanwell's 500 MW Tarong West Wind Farm near Kingaroy, and $563.5 million for CS Energy's wind investments in Central Queensland
- $330 million for CleanCo's Swanbank Battery and $218 million for CS Energy's Greenbank Battery, and a $500 million allocation to large-scale and community batteries under Action 1.3 of the *Queensland Energy and Jobs Plan*
- $85.5 million for CS Energy's Brigalow Hydrogen-ready Gas Peaking Plant
- $28.9 million for CS Energy's Kogan Renewable Hydrogen Project and $15 million for Stanwell's Central Queensland Hydrogen Project Front End Engineering Design Study.

Through coal royalties, the government has also allocated $300 million to CS Energy for energy projects supporting decarbonisation in Central Queensland, as well as $500 million to CleanCo to support 2.3 GW of renewables projects in Central Queensland.

The government is also delivering the critical deep storage capacity essential to Queensland's future energy system. This includes the 2 GW Borumba Pumped Hydro Energy Storage project which will be a cornerstone of Queensland's energy system. The 2023–24 Budget approves $6 billion in equity funding over the project's construction phase, enabling Queensland Hydro to deliver this world class project while it also continues to lead the detailed feasibility study into the Pioneer-Burdekin Pumped Hydro Energy Storage project.

As outlined by the QEJP, Queensland's existing publicly owned thermal generation assets will be transformed into clean energy hubs to support critical system reliability and stability. This work has already begun at CS Energy's Kogan Creek Clean Energy Hub, comprising the Chinchilla Battery, Kogan Renewable Hydrogen Demonstration Plant, and future Brigalow Hydrogen-ready Gas Peaking Power Plant.

Throughout the transformation, the government is committed to maintaining public ownership of energy assets and supporting impacted communities and workers through a range of initiatives, including a $150 million Job Security Guarantee Fund to support affected energy workers through the transformation.

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 2023–24, Queensland Rail will continue to work with external partners and support delivery of significant new rail infrastructure to transform the Citytrain network, including the Cross River Rail project, new stations and accessibility upgrades, modern signalling equipment and additional train stabling capacity. These investments will increase rail service delivery for the state's growing population and support local manufacturing supply chains, and jobs in regional areas.

8.1.4 Ports

Queensland has a large network of ports along its coastline that are owned and run by GOCs. These businesses, Gladstone Ports Corporation (GPC), North Queensland Bulk Ports Corporation (NQBP), Port of Townsville Limited (POTL), and Far North Queensland Ports Corporation Limited (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 by planning and delivering strategic projects which facilitate trade activity. Their ongoing efficient and responsible operation is critical to economic growth, job creation and sustainable development across the state.

Major port projects continuing throughout 2023–24 include:

- the continuation of the $251 million Channel Capacity Upgrade at the Port of Townsville to improve freight export and import opportunities for North Queensland
- the completion of the $21 million Multi-Use Conveyor at the Port of Bundaberg, in partnership with the Australian Government and Sugar Terminals Limited
- expansion of the Cairns Marine Precinct (CMP) with delivery of 2 new wharves as part of a $32 million early works package. Further to this investment, the Queensland Government has committed $180 million, subject to approvals, to deliver an expansion of the CMP with the development of a Common User Facility. The proposed facility will include a 5,000 tonne shiplift, 3 hardstand areas, 2 blast and paint sheds and wet berth capacity to cater for vessels up to 120 metres in length. The Queensland Government is working with the Australian Government, which has committed a co-contribution of $180 million, bringing total funding to $360 million to progress the project
- working with various proponents in Gladstone, Townsville, and other major ports to identify and progress potential hydrogen-related project opportunities.

8.1.5 Water

The two 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 is primarily responsible for supplying safe, secure and reliable bulk drinking water for over 3 million 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 also provides essential flood mitigation services, manages seven water supply schemes which provide irrigation services and provides a range of community recreation facilities.

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.

During 2023–24, the Queensland Government is delivering additional water supply, fortifying the flood resilience of water infrastructure and ensuring the ongoing safety and reliability of dams through state-owned water businesses. Major projects include:

- construction of the $983 million Fitzroy to Gladstone Pipeline, enabling long term water security in the Central Queensland region
- continued construction of the $568.9 million Rookwood Weir

- delivery of the $273.1 million Toowoomba to Warwick Pipeline, part of a more than $300 million investment for water security in the Toowoomba and Southern Downs regions
- completion of the $95.2 million South West Pipeline, connecting Beaudesert to the South East Queensland Water Grid.

Dam safety is a major focus for the water sector. Sunwater, Seqwater and the Gladstone Area Water Board have ongoing dam improvement programs to ensure the safety and reliability of dams, and compliance with dam safety guidelines into the future. In 2023–24, $155.8 million will be invested for planning and early works on improvements to Paradise, Burdekin Falls, Somerset, Wivenhoe, North Pine, Lake Macdonald, and Awoonga dams.

8.1.6 Other

Queensland Hydro

In 2022, the government established the new publicly-owned entity, Queensland Hydro, to develop, deliver, own, and operate the large-scale, long-duration pumped hydro storage assets that will be the cornerstone of Queensland's future energy system. These assets will be critical to Queensland's energy transformation, supporting renewable energy and system security by absorbing excess renewable generation and dispatching it in peak demand periods.

In 2022–23, the government approved proceeding with the $14.2 billion, 2 GW, 24-hour Borumba Pumped Hydro Energy Storage, to be located southwest of Gympie. During 2023–24, Queensland Hydro will progress State and Australian Government approvals, exploratory works, and procurement for main works.

Queensland Hydro will also continue the feasibility study for the Pioneer-Burdekin Pumped Hydro Energy Storage project, to be located west of Mackay. Pending final investment decision of this project, staged construction is expected to commence as early as 2026–27.

8.2 Finances and performance

8.2.1 Earnings before interest and tax

Estimated total PNFC Sector EBIT of $2.347 billion for 2022–23 is $1.172 billion lower than forecast at the 2022–23 Budget. Across the forward estimates, PNFC Sector EBIT is expected to increase to $4.101 billion by 2026–27.

The electricity network sector EBIT is estimated at $873 million in 2022–23, lower than forecast at the 2022–23 Budget, predominantly due to movements in the value of hedging contracts held by EQL's retail business. Sector earnings are expected to recover year-on-year from 2023–24, to $1.806 billion by 2026–27, consistent with expected regulated revenue movements.

For the electricity generation sector, a lower EBIT of $604 million in 2022–23 is forecast to recover strongly in 2023–24 (to $1.687 billion), with movements in the value of hedging contracts continuing to drive earnings volatility in this sector. Generators enter appropriate hedging contracts to provide earnings certainty, including on the Australian Securities Exchange, with the earnings impacts of some contracts extending over multiple years. These temporary variations are expected to moderate over the forward estimates.

Rail sector EBIT in 2022–23 is slightly lower than that estimated at the 2022–23 Budget. This primarily reflects escalation of operational and capital costs during 2022–23, including in support of, and preparations for, Cross River Rail and associated works.

Port sector EBIT in 2022–23 largely aligns with the 2022–23 Budget and is forecast to trend upwards over the forward estimates, reflecting the various long-term revenue contracts with customers and cost recoveries from the completion of revenue generating capital expansions.

Water sector EBIT in 2022–23 of $415 million is lower than estimated at the 2022–23 Budget due to lower water sales, but expected to trend around $500 million over the forward estimates.

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. Over the forward estimates, earnings will be offset by expenses as venues are updated 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]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	1,660	1,312	873	1,185	1,291	1,547	1,806
Electricity Generation	203	1,067	604	1,687	1,470	1,156	1,236
Rail	295	312	258	315	374	402	364
Ports	183	219	238	248	277	296	308
Water	479	594	415	548	493	470	530
Other[2]	(47)	15	(41)	(154)	(76)	(77)	(143)
Total PNFC sector	**2,773**	**3,519**	**2,347**	**3,829**	**3,828**	**3,793**	**4,101**

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 proposed capital expenditure program, together with the implications of borrowings on key financial and performance related indicators.

PNFC Sector entity asset values are a relevant factor in considering PNFC Sector borrowings, with PNFC Sector entities borrowing around 55 per cent of their asset values in 2023–24 (on average). Over the forward estimates, 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 forecast to fall to 51 per cent by 2026–27.

Total PNFC Sector borrowing for 2022–23 is estimated at $47.875 billion, or $3.541 billion higher than forecast at the 2022–23 Budget, largely 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 $8.908 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.

Ports and rail sector borrowings have contributed to the funding of major capital works in these sectors and are forecast to sit at around $1 billion and $5 billion, respectively, over the forward estimates.

Queensland Hydro, a major contributor to the PNFC 'Other' sector, drives an increase in borrowings over the forward estimates as early works and construction activities advance on pumped hydro energy storage projects.

Table 8.3 Borrowings and total assets[1]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	23,967	24,361	25,118	26,498	27,758	29,942	32,780
Electricity Generation	20,339	4,817	7,185	3,225	2,633	2,555	1,128
Rail	4,121	4,401	4,637	4,652	4,868	4,814	4,807
Ports	1,083	1,064	1,071	1,049	1,026	970	945
Water	9,827	9,543	9,700	9,472	8,989	8,453	7,953
Other[2]	158	147	164	271	846	1,930	4,594
Total PNFC sector	**59,495**	**44,334**	**47,875**	**45,166**	**46,120**	**48,664**	**52,207**
Total Assets	91,338	74,953	80,459	82,492	88,371	94,694	102,088

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 through 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, including investment into critical infrastructure delivered by PNFC Sector entities. 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.

While total PNFC Sector dividends for 2022–23 are expected to be $511 million, or $304 million lower than forecast at the 2022–23 Budget, the PNFC Sector is expected to deliver cumulative dividends of $4.113 billion over the forward estimates, with annual dividends increasing to $1.122 billion by 2026–27.

Electricity network dividends are expected to be $93 million in 2023–24, rising steadily over the forward estimates, in line with earnings growth.

The electricity generation sector is expected to provide reliable dividends over the forward estimates, at around $500 million per year commencing in 2023–24. This reflects steady earnings across this sector, as investment in new renewable generation grows and wholesale prices stabilise. Dividends in 2022–23 have been impacted by lower earnings and unfavourable fair value adjustments on hedge contracts.

Ports sector dividends are forecast to remain steady over the forward estimates, in line with estimated earnings and expected stable trade throughput across various cargo categories.

In the water sector, dividends for 2022–23 are expected to be above the 2022–23 Budget due to Gladstone Area Water Board. Dividends are expected to be modest over the forward estimates due to the repayment of debt by Seqwater and dam improvement costs, with the Mount Isa and Gladstone Area Water Boards forecasting dividends.

Table 8.4 Dividends[1]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	..	233	151	93	113	189	312
Electricity Generation	..	284	..	463	609	511	503
Rail	194	168	161	146	207	189	126
Ports	..	118	150	138	154	165	169
Water	15	12	49	4	4	7	14
Total PNFC sector	**209**	**815**	**511**	**844**	**1,086**	**1,061**	**1,122**

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 $159 million lower than forecast at the 2022–23 Budget but expected to increase to $596 million in 2026–27.

Table 8.5 Tax equivalent payments[1]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	322	156	77	64	75	114	141
Electricity Generation	107	219	142	261	332	285	312
Rail	71	81	64	102	114	96	55
Ports	55	61	76	68	77	81	80
Water	(24)	6	6	2	2	4	7
Other[2]	1	..	1	..	..	1	1
Total PNFC sector	**532**	**524**	**365**	**498**	**601**	**580**	**596**

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. An 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 remain at around $215 million across the forward estimates, with some increases to 2025–26 and 2026–27 in line with increased borrowing.

Table 8.6 Competitive neutrality fee payments[1]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	152	165	160	148	141	136	124
Electricity Generation	14	12	22	22	21	28	32
Rail	29	28	21	25	29	39	49
Ports	9	8	8	8	8	9	9
Water	4	5	5	6	6	6	6
Total PNFC sector	**208**	**218**	**216**	**209**	**205**	**217**	**220**

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 (e.g., 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 budgeted CSO cost for electricity networks in 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. Over the forward estimates a substantial amount of Water CSO payments are due to the government's rural irrigation water price discount for Sunwater and Seqwater customers which has been extended to 2024–25. There is no CSO forecast in 2026–27 because irrigation prices have not yet been set for 2025–26 and beyond.

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 2022–23 are expected to be $2.729 billion, largely in line with the 2022–23 Budget. Over the forward estimates, CSO and TSC payments are expected to increase to $3.099 billion by 2026–27. This trend is largely driven by TSC payments, which reflect a range of adjustments associated with growth, maintenance, and safety of the rail network. This includes delivery of significant capital projects, upgrades to existing assets, and operational activities associated with transformation and Cross River Rail.

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

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	525	635	621	537	538	548	573
Rail	1,998	2,153	2,085	2,306	2,492	2,580	2,526
Water	25	24	24	23	28	7	..
Total PNFC sector	**2,548**	**2,812**	**2,729**	**2,866**	**3,059**	**3,135**	**3,099**

Note:

1. Numbers may not add due to rounding.

8.2.5 Equity movements

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. The Queensland Government provides new equity to support Queensland's publicly-owned businesses invest in critical new infrastructure projects across the state.

In 2022–23, total PNFC Sector net equity contributions are expected to be $808 million, compared to a $418 million forecast at the 2022–23 Budget, with the difference primarily due to a $500 million allocation to CleanCo for wind and solar investments in Central Queensland.

Over the forward estimates, total PNFC Sector equity movements reflect $4 billion from increased coal royalties allocated to a range of projects in regional Queensland, including in the energy, water, and ports sectors, as well as new government funding to support the rollout of the QEJP, including Queensland's pumped hydro energy storage assets and projects supported by the $4.5 billion Queensland Renewable Energy and Hydrogen Jobs Fund.

In the electricity networks and generation sectors, equity adjustments reflect new investments in renewable energy, hydrogen, and storage assets, as well as to maintain the gearing ratios of network businesses over time, including special dividends. Due to ongoing delays, CleanCo is pausing the development of the Karara Wind Farm, with the $250 million equity allocation for the project repurposed towards other renewable project investment opportunities.

In the rail sector, equity movements primarily relate to new investments in significant capital projects associated with reconfiguration of the rail network and Cross River Rail.

In the ports sector, major equity movements relate to GPC and NQBP major projects (including those funded from coal royalties), and the pass through of funding under existing agreements with the Australian Government, such as the Bundaberg Port conveyor under the Hinkler Regional Deal and the Townsville Channel Capacity Upgrade under the Townsville City Deal.

In the water sector, the government has committed over $2 billion in new funding for Sunwater's Paradise Dam Improvement Project and Burdekin Falls Dam Improvement and Raising Project, Seqwater's Toowoomba to Warwick Pipeline, and Gladstone Area Water Board's Fitzroy to Gladstone Pipeline.

Equity over the forward estimates in the corporations captured under 'Other' is primarily for Queensland Hydro to deliver the Borumba Pumped Hydro Energy Storage project and continue progressing the detailed feasibility study for Pioneer-Burdekin Pumped Hydro Energy Storage project.

Table 8.8 Equity movements[1]

	2021–22 Outcome $ million	2022–23 Budget $ million	2022–23 Est. Act. $ million	2023–24 Budget $ million	2024–25 Projection $ million	2025–26 Projection $ million	2026–27 Projection $ million
Electricity Networks	(40)	(70)	(160)	372	393	165	235
Electricity Generation	..	370	809	682	1,319	100	100
Rail	(5)	36	36	..	..	197	..
Ports	26	37	41	82	217	118	43
Water	..	3	22	570	666	454	457
Other[2]	4	43	60	254	853	1,684	1,689
Total PNFC sector	**(14)**	**418**	**808**	**1,960**	**3,447**	**2,717**	**2,524**

Notes:

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