



# CORPORATE PROFILE



## Our business profile

Powerlink's business is the reliable and cost efficient provision of electricity transmission services. Powerlink owns, operates, develops and maintains Queensland's high voltage electricity network, which transports electricity in bulk from power generators to the regional distribution networks and a few large industrial customers.

## Our place in the National Electricity Market

Powerlink is a Transmission Network Service Provider (TNSP) in the National Electricity Market (NEM). We operate and develop our network in accordance with the National Electricity Rules (NER).

We provide NEM participants with secure, open and non-discriminatory access to our network for the transport of electricity. Regardless of the fuel source used by generators – for example wind, hydro, solar, gas or coal – the high voltage network is needed to securely transport bulk electricity.

We also have an operating agreement with the Australian Energy Market Operator (AEMO) to deliver services that help to securely operate the Queensland power system.

The Queensland Government has appointed Powerlink to undertake the tasks of the Responsible Officer for Queensland, Jurisdictional System Security Coordinator in Queensland, and Jurisdictional Planning Body for electricity transmission in Queensland.

We assess the capability of our transmission network to meet forecast electricity load growth while also meeting mandated reliability standards for electricity transmission.

Where we identify emerging limitations in our network we undertake a transparent process to identify the solution which satisfies the reliability standards at the lowest long-run cost to customers. This process is a requirement of the Australian Energy Regulator's (AER) Regulatory Investment Test for Transmission (RIT-T).

## Our network

Our \$6 billion high voltage transmission network comprises 118 substations and 13,930 circuit kilometres of transmission lines.

We take pride in the performance of our network, which is measured against the performance standards set by the AER. Our commitment to delivering operational excellence across our business enables Powerlink to continue to provide a reliable and cost effective transmission network.

## Our services

Powerlink does not buy or sell electricity. We transport it between power generators, the distribution networks and a few large industrial customers (such as aluminium smelters). We efficiently transport about 50,000 gigawatt hours of energy per year throughout Queensland.

Powerlink also transports electricity to New South Wales via the Queensland/New South Wales Interconnector (QNI) transmission line.

Electricity distributors Energex, Ergon Energy and Essential Energy take the high voltage electricity from Powerlink's substations and distribute it to more than two million residential and commercial customers throughout Queensland and parts of northern New South Wales.

As well as maintaining our existing network and building new transmission lines and substations to meet electricity demand growth and replace ageing assets, Powerlink also builds new transmission infrastructure for major industrial customers (such as a power generator or mine) seeking connection to its electricity network.

When Powerlink constructs a new line or substation as a 'non-regulated' connection (for example for a mine or liquefied natural gas development), the costs of acquiring, constructing and operating the transmission line and/or substation are paid for by the company making the connection request.

A smaller part of our business involves providing commercial services in the fields of telecommunications, technical services and oil testing.

## Our people

We employ around 1,000 people in a wide range of professional, technical, trade, specialist and administrative roles.

It is our shared commitment to Powerlink's values and focus on safety, technical and process innovation, efficiency and stakeholder commitments that secures Powerlink's position as a leader in our field.

Powerlink provides our people with rewarding work opportunities and access to a range of development and career progression opportunities.

## ACHIEVING

- Introduced new strategies to strengthen the safety culture at all Powerlink work sites.
- Delivered high level of network reliability and availability; better than the majority of targets set by our regulator.
- Benchmarked as a top quartile performer in terms of cost efficiency and network reliability among international transmission businesses participating in International Transmission Operations and Maintenance Study (ITOMS) 2011.
- Engaged productively with our regulator throughout the process to determine our revenue for the five-year period to 30 June 2017.
- Invested \$752.9 million in capital works to replace and extend the life of ageing assets to maintain reliability of electricity supply and meet electricity demand.
- Invested \$94.3 million in maintaining our network with emphasis on efficiencies in work programs and techniques to minimise network outages.
- Connected two major electricity customers to our network through user-pays agreements.
- Engaged with landowners and stakeholders about our planned new transmission projects.
- Supported better on-ground environmental decision making by improving our environmental work plans.

## Our community and environment commitment

We are committed to responsibly managing how we engage with communities and the environment as we operate and develop our network to meet Queensland's electricity demand. Our aim is to consistently establish and maintain long-term, positive relationships with landowners and other stakeholders in the areas near our infrastructure.

We integrate environmental management practices into the way we do our work and our talented people are always seeking out innovative solutions to ensure we continue to strengthen our environmental performance.

## Our corporate structure

Powerlink is a Government Owned Corporation (GOC) with two shareholding Ministers. We are a regulated business with the majority of our revenue determined by an independent national economic regulator, the AER. Powerlink also owns a 40 per cent share of the South Australian electricity transmission network ElectraNet.

Powerlink's activities and operations are undertaken in compliance with the *Electricity Act 1994 (Queensland)*, the NER and other relevant statutory requirements.

## Electricity supply costs

We are working hard to ensure Powerlink's transmission network delivers the right balance between reliability of supply and cost effectiveness for Queensland electricity consumers. For a typical Queensland residential electricity consumer connected to the distribution network, the cost of the use of Powerlink's high voltage electricity grid represents about 10 per cent of the total delivered cost of electricity, therefore transmission charges have minimal impact on household electricity bills.

Large customers (such as mines) directly connected to Powerlink's network may see transmission as a larger portion of the total delivered cost of electricity, reflective of their unique load and connection circumstances.

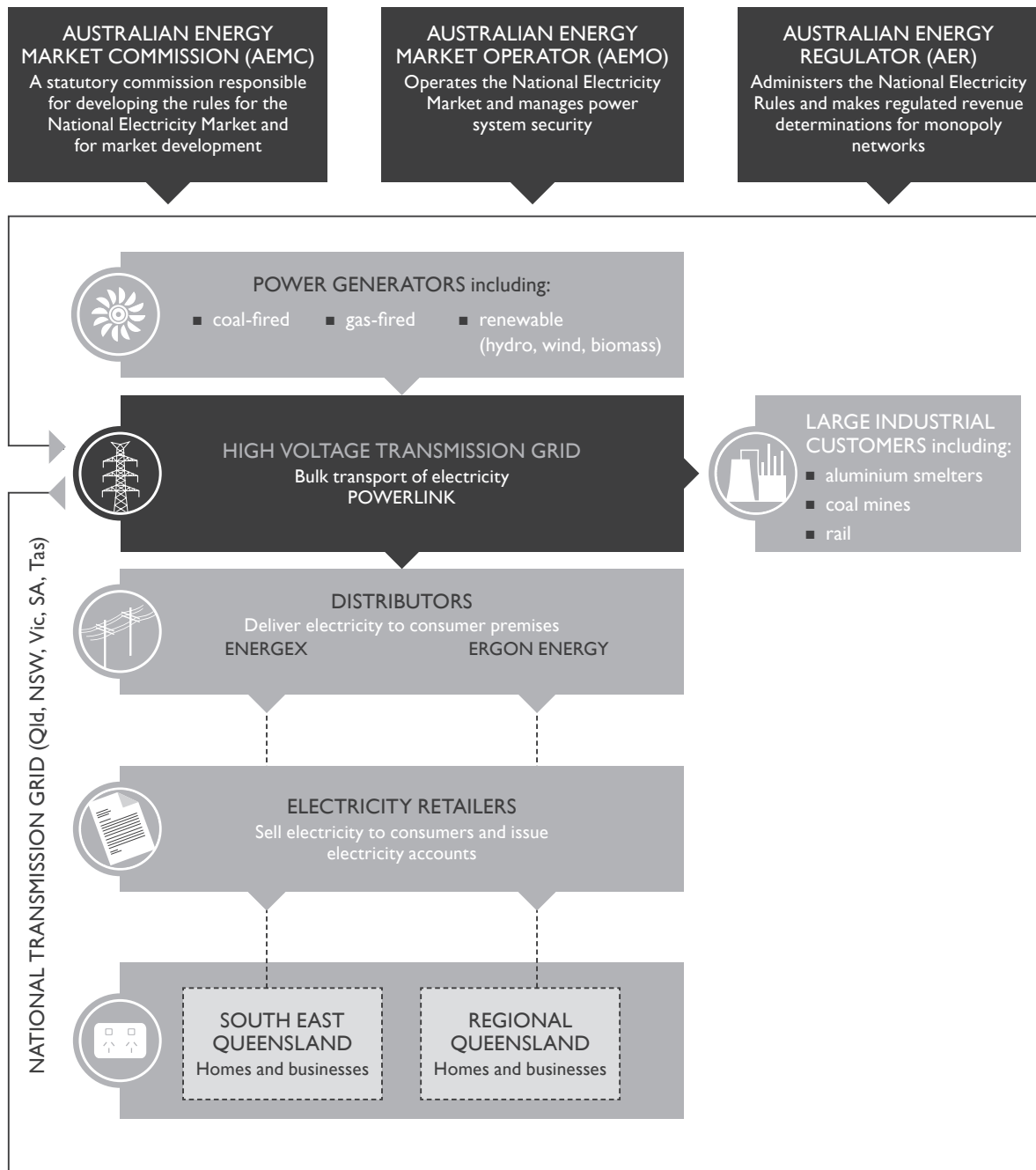
Information about pricing for transmission services can be found on page 16 of this report.

## Queensland electricity transmission network



## Queensland's power supply industry

Our high voltage transmission network is just one link in the chain supplying electricity to Queenslanders. This diagram illustrates Powerlink's role within the supply chain.



# FINANCIAL OVERVIEW

## *Powerlink business outlook*

Powerlink delivered strong financial performance in 2011/12, exceeding its Statement of Corporate Intent (SCI) financial targets. Financial year 2011/12 was the final year of the Australian Energy Regulator's (AER) five-year regulatory determination.

Powerlink's revenue determination for the next regulatory period, effective from 1 July 2012, was delivered by the AER on 30 April 2012. With regulated network revenue representing approximately 90 per cent of Powerlink's overall revenues, this determination will provide the operating and capital expenditure framework for managing the business over the next five years.

The environment Powerlink operates in has changed considerably. Previously Queensland has had high growth in demand for electricity and, associated with this, a growth in infrastructure requirements. The external environment has now changed to be characterised by increased economic uncertainty, and slower growth in demand for electricity. As a Government Owned Corporation, Powerlink aims to strike the right balance between cost and reliability of electricity supply. This approach is consistent with the State Government's approach on debt reduction and reducing cost of living pressures, including electricity prices, while still ensuring an effective and reliable provision of electricity transmission services to Queensland.

During 2011/12 Powerlink started targeting business efficiency improvements through our three years ahead business strategy which was released in March. In particular the strategy includes a productivity and performance focus – one of five key strategic themes. In developing this refocused strategy, Powerlink considered a range of major external drivers relevant to the way it delivers its services. These included concern with rising electricity prices, cost efficiency and meeting stakeholder expectations in relation to value for money for these services.

Alignment of Powerlink operations with shareholder expectations has been achieved through the following:

- Preparation of a new corporate plan focused on meeting Government expectations for efficiencies;
- Review of the management and operational structure of the organisation to drive efficiencies and align resources to the efficient delivery of the transmission services throughout the business;
- Reducing discretionary spending across the organisation where possible, including in the areas of travel, catering, use of consultants and sponsorships;
- Refining the approach to electricity demand forecasting to ensure future demand driven capital expenditure requirements are delivered neither ahead of nor later than the time required;
- Using the most up to date regional and local information prior to committing to any major network development;
- Review of recruitment processes;
- Streamlined accountabilities across the organisation; and
- Ongoing review of business and support activities.

We remain focused on meeting our obligations to deliver a secure and reliable supply of electricity at the lowest long-run cost to consumers.

## *Powerlink business performance*

With a continued strong focus on cost management, Powerlink achieved its key cost target by maintaining controllable operating expenditure at 1.8 per cent of replacement asset value. This and stronger returns from Powerlink's non-regulated business delivered an Earnings Before Interest and Tax (EBIT) result of \$505.8 million. The higher regulated revenue cap due to higher Consumer Price Index (CPI) in accordance with the AER's revenue determination, also contributed to this improved result.

## *Borrowings*

A key driver for Powerlink is to ensure sufficient funds are available to meet all operating and capital expenditure requirements while maintaining an efficient overall cost of funds.

In conjunction with Queensland Treasury Corporation, the composition and duration of Powerlink's debt portfolio has been proactively managed for the market conditions and the funding requirements of the capital works program for the year, with interest cover (times) ratio improving to 3.2 compared to 3.0 in the previous year.

New borrowings for the 2011/12 totalled \$282.7 million with total debt now standing at \$3.85 billion. With a debt to fixed assets ratio of 57.7 per cent (2010/11: 58.8 per cent), this is consistent with the benchmark gearing for regulated electricity businesses in Australia of 60 per cent.

Powerlink continued to maintain an investment grade credit rating on a standalone basis, with all new loan funding obtained through the Queensland Treasury Corporation.

## *Dividends*

Each year the Powerlink Board considers a number of relevant factors such as future capital requirements of the company and the level of returns expected by shareholders to determine an appropriate level of dividends to be paid.

The level of dividends approved by the Board for the 2011/12 year totalled \$146.7 million being 80 per cent of the profit and tax for the consolidated entity.

## *Capital investment*

During the 2011/12 year, Powerlink invested \$752.9 million in capital works projects. This is responding to the emerging growth in the natural resources sector and associated industries with non-regulated investments, as well as replacing aging assets and meeting reliability of supply requirements. Total investment in fixed assets now totals approximately \$6.7 billion.

## *Summary of Statement of Corporate Intent 2011/12*

Our SCI for 2011/12, as agreed with our shareholding Ministers, details Powerlink's performance targets, priorities and strategies. The following table summarises the key financial and non-financial indicators, as incorporated in Powerlink's SCI.

*Summary of Statement of Corporate Intent 2011/12*

Objectives	Performance measures/targets	Performance outcomes
<b>Meet financial targets</b>		
Achieve specified financial performance targets	Earnings Before Interest and Tax (EBIT) \$478.7 million	EBIT \$505.8 million
	Net Profit After Tax (NPAT) \$160.4 million	NPAT \$203.8 million
	Return on Assets 7.0%	Return on Assets 7.4%
	Return on Equity 7.0%	Return on Equity 9.0%
	Debt/Fixed Assets Ratio 59.6%	Debt/Fixed Assets Ratio 57.7%
	Debt/Debt and Equity Ratio 63.4%	Debt/Debt and Equity Ratio 62.4%
	Interest cover ratio Earnings Before Interest and Tax, Depreciation and Amortisation (EBITDA) 2.8 times	EBITDA 3.1 times
<b>Deliver shareholder value</b>		
To deliver dividends to shareholders, while maintaining at least an 'investment grade' business rating	Dividend payout ratio of 80%	Dividend payout ratio of 80%
	Provide a dividend to shareholders of \$123.4 million	Provided a dividend to shareholders of \$146.7 million
<b>Deliver our capital works program</b>		
Develop the Queensland transmission grid to meet customer electricity demands, and safety and reliability standards	Deliver the required capital works program	Four regulated (prescribed) projects were completed during 2011/12 and 10 are under construction. Two non-regulated customer connection projects were completed and five are under construction. More information can be found on pages 27 to 31 of this report.
	Total capital forecast works expenditure to be \$859 million	Total capital works expenditure was \$752.9 million
<b>Meet non-financial targets</b>		
Achieve safety performance targets	Lost Time Calculation (LTC) 3.0	LTC 1.8
Achieve cost efficiency performance targets	Total network maintenance cost/replacement asset value 1.0%	Total network maintenance cost/replacement asset value 1.0%
	Total controllable operating cost/replacement asset value 1.8%	Total controllable operating cost/replacement asset value 1.8%
To be compliant with relevant environmental legislation. Any reportable environmental instances that occur will be reported	To be materially compliant with relevant legislation	Overall Powerlink's environmental performance continues to be above target, with scheduled audits undertaken. Two environmental incidents were reported in 2011/12, more information about this can be found on page 39 of this report.
Achieve network performance targets (calendar year 2011)	Circuit availability	
	Critical circuits >99.07%	Critical circuits 98.51%
	Non-critical circuits >98.40%	Non-critical circuits 98.60%
	Peak periods >98.16%	Peak periods 98.39%
	System reliability	
	Not more than 5 events in excess of 0.2 system minutes	4 events in excess of 0.2 system minutes
	Not more than 1 event in excess of 1.0 system minutes	0 events in excess of 1.0 system minutes
	Average outage	
	Duration of 1,033 minutes	Duration of 765 minutes



## CHAIRMAN'S REVIEW

I am pleased to have joined Powerlink during 2011/12 – a year in which the business has renewed its strategies and focus on delivering cost effective transmission services for Queensland. Powerlink continued to deliver improved financial outcomes with 2011/12 Earnings Before Interest and Tax (EBIT) of \$505.8 million. This strong financial performance has been achieved through continued growth in Powerlink's non-regulated business and Powerlink's focus on cost efficiency and effectiveness in operational aspects of the business, and required capital investment in the transmission network.

### *Delivering cost efficient transmission services*

Powerlink has focused on a number of strategies that will contribute to the current and future cost efficient and reliable operation of the high voltage transmission network, including striking the right balance between reliability of supply and cost. Specific actions taken include safely adding to the capabilities of our live line and live substation work teams, which has expanded the scope of works that can be undertaken without outages on our network. We also implemented new substation design standards which will realise efficiencies in construction and maintenance.

Looking forward, we are embarking on the first year of Powerlink's 2012/13 to 2016/17 regulatory period, and aim to continue to meet the network performance targets set by the Australian Energy Regulator (AER).

### *Responding to long-term electricity demand*

While peak electricity demand was lower in 2012 than the previous year, economic indicators predict a return to sustained long-term growth in the Queensland economy. Powerlink's planning process identifies this return to economic growth as one factor that will sustain an upward trend in electricity demand over the next 10 years. We will ensure Powerlink's network cost effectively meets sustained electricity demand and will continuously review our plans to ensure investment occurs as required, at the lowest long-run cost to customers.

A significant proportion of the electricity demand has been, and will continue to be created by the strong investment in the resources sector, particularly coal and liquefied natural gas developments in South West and Central Queensland. The forecast electricity demand from the resources sector is driving expansion of Powerlink's network in South West Queensland, including construction of a number of customer-funded projects that will connect the customers' new resource developments to the transmission network.

### *Working together safely toward business goals*

Above all else, Powerlink aims to provide a safe and productive workplace for its employees. The Board values initiatives undertaken, such as facilitating safety forums, to improve safety performance of all Powerlink employees and contractors.

Our existing employee development and engagement strategies are strategically targeted to provide Powerlink with the capabilities to meet future business needs. The external environment and our internal focus on cost efficiencies will require strategies to ensure our staff remain informed and aware of the important role they have in contributing to the cost effective operation of our business.

Finally, I wish to thank Powerlink's management and employees for their constructive work in 2011/12. I look forward to working with the Powerlink team and my fellow Directors during the coming year to deliver cost effective and reliable high voltage electricity transmission services.

A handwritten signature in dark ink, appearing to read 'Stephen Rochester'.

**Stephen Rochester**  
*Chairman of the Board*





## CHIEF EXECUTIVE'S REVIEW

At Powerlink we are focused on providing transmission services that strike an appropriate balance between reliability of electricity supply and cost to consumers.

### ***Our strategy for the future***

Our new business strategy launched in 2011/12 supports our position of balancing cost effectiveness and operational performance. The business strategy has a central theme of cost efficiency and provides a renewed focus on key areas of our business including safety, operational performance, financing, forecasting and stakeholder relationships. It has been embraced by Powerlink people.

Our strategies continue to build on our track record of delivering essential service infrastructure in a timely way to meet growing electricity demand, at the lowest long-run cost to consumers.

A new workplace agreement was agreed upon and approved during the year and will assist us to deliver the business strategy and our commitments to employees.

### ***Strong operational performance***

The way in which we go about cost effectively developing, operating and maintaining our network supports Queensland's economic growth.

We monitor our business operations in a number of ways, and I am pleased to report that in 2011/12 Powerlink's transmission network performed well against key operational measures. We met the majority of the 2011 targets set by our regulator, the Australian Energy Regulator (AER); these targets focus on the performance of our transmission network and impacts on National Electricity Market (NEM) participants. Powerlink also benchmarked in the top quartile in terms of cost efficiency and network reliability among transmission providers participating in the 2011 International Transmission Operations and Maintenance Study (ITOMS).

### ***Determining our future revenue***

Following a transparent process, the AER delivered its final revenue determination, which will guide Powerlink's regulated business operations over the five-year period to 30 June 2017.

Our revenue reset team engaged productively with the AER and their consultants over an intense year-long period, with preparation of Powerlink's proposal before that. The team was closely supported by many people within Powerlink who provided information, data and analysis.

The final revenue determination by the AER is expected to have minimal impact on the transmission component of a typical residential customer's electricity bill. For a typical Queensland residential electricity consumer, the cost of Powerlink's high voltage electricity grid represents about 10 per cent of the total delivered cost of electricity.

We're conscious of the cost of living pressure on the community, so maintaining a cost efficient transmission service is central to our business strategy.

### ***Managing capital works***

We manage a capital works program that includes network augmentations, replacements and life extension projects to deliver a cost effective, reliable transmission services. We aim to manage the program to cost effectively deliver projects within expected timeframes.

During the next regulatory period we move to a scenario where half of our capital works program will comprise replacement of assets that have reached the end of their economic life. Previously, the largest proportion of our capital works program has comprised construction of new network transmission lines and substations to meet forecast electricity demand.

This year, after a critical review of our approach, Powerlink applied a new method to developing electricity demand forecasts, including undertaking our own econometric modelling in addition to using comprehensive external economic advice. As a result, the need to augment our network has been reduced and there is a later requirement to establish a 500 kilovolt network into South East Queensland. The electricity demand forecasts, contained in our 2012 Annual Planning Report, indicate a trend of steadily increasing peak electricity demand in Queensland over the next 10 years.

Powerlink has also experienced a significant workload in advising and responding to enquiries from large industrial customers with an interest in connecting new resource developments to our network, and in planning



and delivering customer works. This year we completed two major customer connection projects, the costs of which were recovered from the customer through a direct negotiation with Powerlink, and a number of other customer works are under way. Our activities in delivering electricity supply to the resource sector support Queensland's economic development.

### *Working safely*

Safety is essential at Powerlink. This year, our Lost Time Injury Frequency Rate (LTIFR) was 3.89. In line with our business strategy, we are refreshing and updating our approach to safety, ensuring it develops in parallel with the national work health and safety harmonisation legislation. A refreshed roadmap that continues to focus on and improve our safety performance over the next few years is under preparation.

We introduced safety behaviour measurements for our field workers, which have helped us to better understand and manage our safety culture. We also continue to build on our strategies that aim to contribute to improved safety performance by our contractors.

### *Productive engagement and processes*

In developing, replacing and maintaining our network we engage in many ways with landowners, communities and other stakeholders throughout Queensland.

We strategically support programs that facilitate engagement with our stakeholders and deliver projects that benefit the communities and environment close to our current and future projects. I take this opportunity to thank our stakeholders and members of the community for their involvement in these programs, and for their productive engagement with Powerlink.

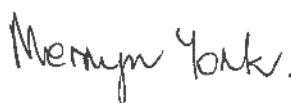
Environmental compliance remains critical to our work and our well-developed environmental audit processes ensure we act on improvement opportunities. During 2011/12, we introduced a new streamlined process for developing and managing Environmental Work Plans for our transmission easements and sites that facilitate better decision making by our people on the ground and continues to improve our environmental performance.

### *Working together into the future*

Powerlink welcomes Stephen Rochester as Chairman and I look forward to working with him and the Directors to deliver Powerlink's business strategy. I also acknowledge David Harrison for his contribution while Chairman and Director in 2012.

I take this opportunity to acknowledge the strong leadership and lengthy service of Powerlink's founding Chairman, Else Shepherd, who completed her role with Powerlink in December 2011 after 17 years. On behalf of all Powerlink people, I extend our gratitude to Else for her support and guidance.

This Annual Report provides striking examples of the capabilities of our people and their balanced approach. I am confident the Powerlink business strategy will guide our performance in delivering cost efficient, reliable transmission services for Queensland. I am equally confident in the capability of our people to progress the strategy in the coming year.



**Merryn York**  
*Chief Executive*