



Powerlink Queensland

Statement of Corporate Intent

2013/14

Prepared by the Directors and Management of Powerlink Queensland
for shareholding Ministers, including the Treasurer and Minister for Trade
and Minister for Energy and Water Supply

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1 EXECUTIVE SUMMARY

Powerlink is a Queensland Government Owned Corporation (GOC) established in 1995 under the *Government Owned Corporations (GOC) Act 1993*. Powerlink develops, operates and maintains the Queensland electricity transmission grid.

This is Powerlink's Statement of Corporate Intent (SCI) for the coming 2013/14 financial year reflecting the initiatives being implemented to focus on efficiency, effectiveness and improved accountability in the delivery of electricity transmission services. The SCI takes into consideration the strategic issues and goals of Powerlink in line with longer term matters outlined in the Corporate Plan and operating within the framework of the National Electricity Market (NEM).

The economic regulator for electricity transmission is the Australian Energy Regulator (AER). The AER delivered its final regulatory determination for Powerlink on 30 April 2012. This determination covers the five year period from 2012/13 to 2016/17. Powerlink derives approximately 90% of its revenue from the provision of prescribed (regulated) transmission services. The regulatory process is aimed at determining the efficient costs required to meet the obligations of Powerlink. Powerlink will continue to focus on reducing controllable expenses and pursue operational efficiencies with the aim of outperforming the AER determination. This will include aligning our workforce to deliver the targeted operational efficiencies and ongoing demand forecasts.

Key business initiatives for 2013/14 are presented in Section 3. Section 4 sets out the specific 2013/14 financial and non-financial targets, which incorporate targeted operational efficiencies and cost reductions (both operating and capital expenditure), while maintaining Powerlink's mandated reliability and security standards. These efficiencies will be advanced notwithstanding the AER's regulatory decision that is based on efficient operating and capital expenditure cost allowances.

While it is required to prepare demand and energy forecasts annually and publish them in an Annual Planning Report (APR) in June each year, Powerlink has committed to updating its demand and energy forecast every six months while there is uncertainty in economic outlook forecasts. This SCI is based on Powerlink's most recent demand and energy forecast prepared in January 2013.

Electricity demand growth continues to moderate in response to a slowdown in the mining and resource sector, reductions in Queensland's Gross State Product outlook, reduced electricity use by consumers due to price pressure, and uptake of solar PV. This means changes to the timing of future network developments and reductions in the amount of network augmentation planned to be undertaken.

Overall electricity demand growth forecast in Queensland continue to be higher than the rest of the NEM. However, the average electricity demand growth across the State was reduced. Previously forecast to be 4.4% per annum over the remainder of the 10-year period in the 2012 APR, it is now forecast to be 3.2% per annum.

Powerlink will continue to monitor and respond to electricity demand trends to avoid the prospect of any over investment and any unnecessary electricity transmission price impacts. Powerlink will develop the Queensland network to meet customer electricity demands, and safety and reliability standards at the lowest long run cost to customers.

To deliver this outcome and the additional committed non-prescribed (unregulated) transmission network connections, Powerlink's capital expenditure in 2013/14 is forecast at **\$677.8 million**.

Regulated capital expenditure accounts for more than 80% of forecast capex. There has been a further reduction in forecast regulated capex in response to the *Annual Planning Report Energy and Demand Forecast – January 2013 Update*.

The capex changes are part of the Corporate Plan forecast for the current five-year regulatory period to 2016/17 which overall is expected to deliver a reduction in regulated capital expenditure compared to the AER revenue decision.

Powerlink acknowledges that the Queensland Government has expressed a preference for any further targeted efficiencies and/or reductions in regulated capital expenditure to result in lower transmission service charges (than which are otherwise provided for under the regulatory arrangements). It is expected that explicit direction from shareholding Ministers would be received to give effect to any such requirement at the time that prices are set.

Whilst no new non-regulated transmission network investments are included, negotiations continue with potential new proponents. Powerlink will liaise with Projects Queensland regarding appropriate funding options for future non-regulated projects, including prepayment pricing and other arrangements as appropriate.

Powerlink seeks to deliver reasonable returns to its shareholders and operate within the agreed capital structure and credit rating for the business.

The Australian Energy Market Commission (AEMC) has finalised a rule change proposal associated with economic regulation of networks. Detailed guidelines are now under development by the AER through its "Better Regulation" program. The AEMC is intending to issue its final report on the Transmission Framework Review. The outcomes of these reviews may impact the commercial and legal environment in which Powerlink operates. Powerlink will work with network groups such as Grid Australia and Energy Networks Association (ENA) to respond to these reviews.

Adoption of a carbon tax will result, over time, in a change in the generation mix and generation pattern in Queensland. Powerlink's transmission network planning processes are well placed to take these changes into account. The carbon tax will also lead to an increase in some input costs to Powerlink's business – both operating and capital works. The impacts of this will be monitored and managed by Powerlink within the existing cost allowances, thereby reducing the impact of transmission price on customers.

2 CORPORATE OVERVIEW

2.1 Corporatisation Framework

The objectives of corporatisation are to improve Queensland's overall economic performance and the ability of the Government to achieve social objectives by improving GOCs' efficiency and effectiveness and their accountability. GOCs operate as far as possible on a commercial basis in a competitive environment while remaining in public ownership and allowing the State to provide strategic direction to them by setting financial and non-financial targets.

The Powerlink Board of Directors approves the strategies and operational and financial objectives for the Corporation.

2.2 Main Undertakings

Powerlink is the Queensland Transmission Network Service Provider (TNSP) in the NEM, regulated in accordance with the National Electricity Rules (Rules) and the *Electricity Act 1994 (Qld)* (the Act). It is a Transmission Entity under the Act and is the holder of a Transmission Authority from the Queensland Government that authorises it to operate the Queensland electricity transmission grid.

The key services Powerlink provides to meet its obligations under the Rules and the Act is to:

- Deliver transmission services to consumers and electricity market participants through provision of its regulated transmission grid.
- Provide non-regulated transmission network connection services.
- Establish and manage alternate non-network solutions where that is more economical than a transmission investment.
- Deliver system operator services to the Australian Energy Market Operator (AEMO) as required.
- Provide metering services.
- Perform the following functions as appointments from the Queensland Government:
 - *Responsible Officer for Queensland;*
 - *Jurisdictional System Security Coordinator in Queensland; and*
 - *Jurisdictional Planning Body for electricity transmission in Queensland.*
- Other services including the provision of technical services, wholesale telecommunications services and oil testing services.

Transmission Use of System Services (TUOS) prices associated with Powerlink's regulated revenue for prescribed transmission services are calculated in line with the annual Maximum Allowable Revenue (MAR) determined by the AER, with adjustments for the AER Service Target Performance Incentive Scheme (STPIS).

2.3 Performance Drivers

Some characteristics of the business environment in which Powerlink operates are unique to Queensland, such as:

- long distances due to decentralisation;
- ongoing demand growth and expansion of the resources sector, albeit at a moderating rate;
- mandated reliability of supply obligations with potential for this to be relaxed at supply points with the agreement of the Queensland Electricity Regulator;
- the location of generation; and
- key legislative requirements.

The key drivers for Powerlink in this environment include:

- Safety
- Forecast Economic Growth
- Network performance and utilisation
- Operational efficiency
- Efficient capital works
- Consumers and Stakeholders
- Environment and community relations

3 CORPORATE BUSINESS STRATEGIES

3.1 Business Strategy

Powerlink's Business Strategy is to deliver all transmission services well with an appropriate balance of reliability of supply and cost, through an agile and contemporary business approach while maintaining a viable organisation and a shared focus on achieving Powerlink's financial and non-financial goals.

This Business Strategy will be delivered through five strategic themes, outlining strategic priorities and initiatives that are to be implemented over the next three years. The themes and the main initiatives under each for the coming year are:

Safety, people and culture

- Safety and health awareness
- Leadership development
- Our people
- Employee culture and engagement

Finance strategies

- Effective access to funding

Our stakeholders and reputation

- Corporate citizenship assessment
- Stakeholder engagement assessment
- Reputation framework
- Value to consumers assessment

Productivity and performance

- Clarify organisational accountabilities
- Develop organisation wide productivity measures
- Exploit digital technologies
- Cost consciousness and control

Managing delivery of work

- Establish responsive and flexible approach to plan and manage all capital and operational works
- Improve deliverability by establishing flexible delivery models

4 BUSINESS PERFORMANCE

4.1 Letter of Strategic Intent

Shareholding Ministers have previously provided high level strategic planning and performance expectations to provide guidance for Powerlink in developing its strategic priorities. The Board of Powerlink acknowledges those expectations and continues to incorporate them into its strategic priorities and financial and non-financial targets.

4.2 Financial Targets

In accordance with the above corporate and operational objectives, the Board of Powerlink has established the following performance targets for 2013/14, and will seek to achieve the 2013/14 Stretch Targets:

	2013/14 Target	2013/14 Stretch Target	2012/13 Stretch Target
PERFORMANCE TARGETS			
• EBIT	\$544.7 M	\$547.4 M	\$502.0 M
• Net Profit After Tax (NPAT)	\$198.9 M	\$200.9 M	\$182.9 M
• Capital Expenditure	\$677.8 M	\$677.8 M	\$613.5 M
• Return on Assets (ROA) ¹	7.1%	7.1%	6.9%
• Debt / Fixed Assets Ratio	57.1%	57.1%	58.3%
• Interest Cover Ratio (EBITDA)	3.1	3.2	3.2
• Dividend Payout Ratio	80%	80%	80%
• Dividend Provided	\$159.1 M	\$160.7 M	\$146.3 M
• Dividend Return on Share Capital	39.7%	40.1%	36.5%
PERFORMANCE INDICATORS			
• Return on Equity (ROE)	8.0%	8.1%	7.5%
• Debt / Debt + Equity Ratio	63.5%	63.5%	62.6%

¹ Achieves Powerlink's Regulatory WACC.

4.3 Non-financial Targets

In accordance with the above corporate and operational objectives, the Board of Powerlink undertakes to seek to achieve the following non-financial performance targets in 2013/14:

	2013/14 Target	2012/13 Target
PERFORMANCE TARGETS		
<i>Cost Efficiency</i>		
• Total Network Maintenance Cost / Depreciated Asset Value	1.7%	1.7%
• Total Controllable Operating Cost / Depreciated Asset Value	2.9%	2.9%
<i>Environment</i>	Objective: To be compliant with relevant legislation. Any reportable instances that may occur will be reported. Target: To be materially compliant.	
<i>Safety</i>		
• LTIFR (Frequency Rate)	5.0	5.0
• LTIDR (Duration Rate)	5.0	5.0
<i>Network Performance</i> ¹	2013 Year	2012 2 Year
• Transmission Circuit Parameters		
• Peak transmission availability	> 98.76%	> 98.76%
• Transmission line availability	> 98.76%	> 98.76%
• Transformer availability	> 98.76%	> 98.76%
• Reactive plant availability	> 97.15%	> 98.15%
• Average Outage Duration	859 minutes	859 minutes
• System Reliability		
• Events in excess of 0.1 system minutes	Not More Than 4	Not More Than 4
• Events in excess of 0.75 system minute	Not More Than 1	Not More Than 1

¹ Applies to Calendar Year.

² New Final AER Revenue Determination targets to apply from 1 July 2012.

4.4 Assumptions

Powerlink's undertaking to achieve its performance outcomes is predicated upon the following assumptions:

ASSUMPTIONS	2013/14 SCI	2012/13 SCI
<i>Economic Assumptions</i>		
CPI ¹	2.5%	2.5%
Asset Revaluation ¹	2.5%	2.5%
Salaries and Wages Growth ²	3.5%	4.0%
Income Tax Rate	30%	30%
<i>Financial Assumptions</i>		
AER Revenue Cap – Regulated	\$901.9 M ³	\$853.4 M
<i>Network Assumptions</i>		
Network (Circuit kilometres)	15,453 kms	14,942 kms

¹ Reported 12-month period from March to March.

² In accordance with Powerlink Enterprise Agreement.

³ Includes estimated Service Target Performance Incentive Scheme Bonus (STPIS) achieved for 2012 Calendar Year.

4.5 Financials

4.5.1 Consolidated

Profit and Loss Statement

POWERLINK QUEENSLAND (Consolidated)	2013/14 Target (\$ M)	2013/14 Stretch Target (\$ M)	2012/13 SCI (\$ M)
<i>Operating Revenue</i>			
Total Operating Revenue:	1,019.7	1,019.7	958.7
<i>Operating Expenses</i>			
Controllable Operating Expenses	193.6	190.9	179.2
Grid Support Costs	---	---	---
Depreciation	275.4	275.4	271.5
Other ¹	6.0	6.0	6.0
Total Operating Expenses:	475.0	472.3	456.7
Earnings Before Interest and Tax (EBIT)	544.7	547.4	502.0
Interest Expense	260.5	260.5	240.7
Income Tax Equivalent Expense	85.3	86.0	78.4
Net Profit After Tax (NPAT)	198.9	200.9	182.9
Dividends Provided for	159.1	160.7	146.3

¹ Includes Cost of Disposal of Non-Current Assets & Expenses for the provision of external customer services.

Balance Sheet – at 30 June of Relevant Financial Year

POWERLINK QUEENSLAND (Consolidated)	2013/14 Target (\$ M)	2013/14 Stretch Target (\$ M)	2012/13 SCI (\$ M)
<i>Current Assets</i>			
Cash	30.0		30.0
Receivables	109.1		78.4
Other	39.7		27.8
Total Current Assets:	178.8		136.2
<i>Non-Current Assets</i>			
Investments	---		202.4
Property, Plant & Equipment	7,786.5		7,189.8
Other	0.3		0.3
Total Non-Current Assets:	7,786.8		7,392.5
TOTAL ASSETS:	7,965.6	7,965.6	7,528.7
<i>Current Liabilities</i>			
Creditors	58.3	58.1	54.9
Other	200.2	202.0	204.7
Total Current Liabilities:	258.5	260.1	259.6
<i>Non-Current Liabilities</i>			
Borrowings	4,449.8	4,447.8	4,189.5
Other	700.1	700.1	576.1
Total Non-Current Liabilities	5,149.9	5,147.9	4,765.6
TOTAL LIABILITIES:	5,408.4	5,408.0	5,025.2
NET ASSETS:	2,557.2	2,557.6	2,503.5
<i>Shareholders Equity</i>			
Share Capital	401.0	401.0	401.0
Reserves	1,055.6	1,055.6	922.0
Retained Earnings	1,100.6	1,101.0	1,180.5
TOTAL SHAREHOLDERS EQUITY:	2,557.2	2,557.6	2,503.5

Shareholder Equity Injections and Withdrawals¹

POWERLINK QUEENSLAND (Consolidated)	2013/14 Target (\$ M)	2012/13 Target (\$ M)
Shareholder Equity Injections	Nil	Nil
Shareholder Equity Withdrawals	Nil	Nil
NET EQUITY	Nil	Nil

¹ Approval of the SCI does not constitute approval of forecast equity injections or withdrawals.

Dividends and Tax Equivalent Expense

POWERLINK QUEENSLAND (Consolidated)	2013/14 Target (\$ M)	2013/14 Stretch Target (\$ M)	2012/13 Stretch Target (\$ M)
Dividends Provided	159.1	160.7	146.3
Tax Equivalents Expense ²	85.3	86.1	78.4

² As identified in Profit and Loss Statement.

Statement of Cash Flows

POWERLINK QUEENSLAND (Consolidated)	2013/14 Target (\$ M)	2013/14 Stretch Target (\$ M)	2012/13 Stretch Target (\$ M)
<i>Cash Flows from Operating Activities</i>			
Cash Receipts in the course of Operations	1,083.3	1,083.3	975.4
Cash Payments in the course of Operations	(192.3)	(189.7)	(263.3)
Interest Received	0.5	0.5	0.9
Interest Paid	(260.5)	(260.5)	(240.7)
Tax Equivalent Payments	(84.1)	(84.7)	(80.8)
Net Cash Provided by Operating Activities:	546.9	548.9	391.5
<i>Cash Flows from Investing Activities</i>			
Payments for Property Plant and Equip.	(677.8)	(677.8)	(613.5)
Proceeds from Sale of Non-Current Assets	3.0	3.0	2.7
Other	---	---	---
Net Cash used in Investing Activities:	(674.8)	(674.8)	(610.8)
<i>Cash Flows from Financing Activities</i>			
Proceeds from Borrowings	286.6	284.6	335.6
Dividends Paid	(158.7)	(158.7)	(146.3)
Other	---	---	---
Net Cash from Financing Activities:	127.9	125.9	189.3
Net Increase/(Decrease) in Cash Held	Nil	Nil	(30.0)
Cash @ Beginning of the Financial Year	30.0	30.0	60.0
Cash @ End of the Financial Year	30.0	30.0	30.0

Cash Balances

Powerlink transactional banking operates through commercial banking arrangements, with only minimal funds retained in its transactional banking facilities.

All funding is sourced through Queensland Treasury Corporation. Powerlink forecasts its daily monetary needs and transfers funds overnight from QTC to meet its transaction banking requirements. In this way the majority of working capital cash is kept with QTC with the associated benefits of the larger portfolio of funding arrangements.

These arrangements maximise the opportunity for the Queensland Government overall to make use of any available cash balance that Powerlink may have. Powerlink aims to keep its cash balance at around \$30 million, with most of this residing in QTC's cash account at any given time.

4.5.2 Key Assumptions

Powerlink's financial forecasts are based on the following key assumptions. Changes to these assumptions may impact on the projected financial results.

Regulated Revenue Cap

Powerlink's AER regulatory determination for the period 2012/13 to 2016/17 delivered on 30 April 2012.

Regulatory pass through Items

There are a number of cost items that are subject to regulatory "pass through" arrangements, such as "Network (Grid) Support Costs" and "Insurance Above Cap Events".

Should pass through events occur, Powerlink is able, with the consent of the AER, to adjust the revenue collections in subsequent years. Whilst this may not impact profitability, it will affect Powerlink's cash flows.

Natural Disaster Events

Powerlink assets are subject to extreme climatic events, and transmission structures are designed to withstand high wind loadings. Nonetheless, events such as cyclones, severe wind events and severe flood events can cause major network damage. However, these are infrequent.

The AER's self insurance and pass through regulatory arrangements, and Powerlink's insurance policies provide cover for most natural disaster event costs. As the self-insurance allowances are based on annualised long-term actuarial allowances for these events, variances between the actual cost of events and annual allowances may impact on annual profitability.

Network Performance – Service Target Performance Incentive Scheme

The AER Service Target Performance Incentive Scheme is designed to deliver a revenue neutral result over time. For business planning purposes, Powerlink assumes a "Nil" bonus or penalty applies for future financial years.

For the 2012 calendar year, Powerlink's performance exceeded the AER targets, with an estimated bonus of approximately \$20.1 million. This is still subject to audit and approval by the AER. The service standard bonus has been included in the regulated revenue cap for 2013/14.

Dividends

Powerlink manages its overall cash flow requirements, including investments, dividends and operating expenditure, to achieve appropriate prudential requirements and maintain at least an "investment grade" business credit rating, and a specific target rating agreed with shareholding Ministers.

Powerlink has a dividend payout ratio policy of 80% which has been adopted for business planning purposes.

Contestability

It is assumed that:

- Powerlink will continue to be a monopoly owner of transmission assets in Queensland;
- Contestability of new non-regulated transmission connection assets in Queensland will continue; and
- Powerlink will continue to have access to required debt funding to pursue approved non-regulated investment opportunities.

Powerlink recognises the debt funding limitations and debt reduction objectives of the Queensland Government. Powerlink will pursue acceptable funding approaches, in consultation with Projects Queensland, for non-regulated transmission network investments.

Non-regulated Network Investments

For business planning purposes, Powerlink has only included capital expenditure for approved non-regulated network investments where the customer has committed to and provided the notice to proceed for the transmission connection.

Electricity Market Reviews

Powerlink has assumed no significant change affecting its financial position or structure as a result of the reviews instituted by COAG, Standing Council on Energy and Resources (SCER) or the Australian Energy Market Commission (AEMC).

AEMC – Transmission Framework Review

The AEMC has been undertaking a review of the transmission frameworks in the NEM since April 2010. The AEMC is releasing its Final Report at the end of March 2013. These will be submitted to the SCER for policy consideration before rule changes are drafted for assessment. Powerlink will continue to engage through Grid Australia and ENA as appropriate.

AEMC – Economic Regulation of Networks

The AEMC finalised its assessment of the rule change regarding economic regulation of networks. The AER is now progressing its "Better Regulation" program to establish guidelines for application of the revised rules.

Emission Trading / Carbon Tax

Adoption of a carbon tax is likely to result, over time, in a change in the generation mix and generation pattern in Queensland. Powerlink's transmission network planning is well placed to take these changes into account.

The carbon tax will also lead to an increase in some input costs to Powerlink's business – both operating and capital works. The impacts of this will be monitored and managed by Powerlink within existing cost allowances, thereby reducing the impact of transmission price on customers.

Government Policy

The Queensland Government has expressed a preference for any further efficiencies and/or reductions in capital expenditure to result in lower transmission service charges (than which otherwise are provided for under the regulatory arrangements). To the extent that Powerlink delivers such further efficiencies, it is expected that an explicit direction to that effect from shareholding Ministers will be received at the time that prices are set in 2014/15 and subsequent years.

4.6 Capital Expenditure Program

Proposed Capital Works Expenditure

Regulated investments greater than \$120 million and unregulated investments greater than \$50 million will be submitted to shareholding Ministers for approval, following their approval by the Powerlink Board. Powerlink undertakes to notify shareholding Ministers of all investments greater than \$20 million immediately following their approval by the Powerlink Board.

Total capital works expenditure in 2013/14 is forecast to be **\$677.8 million**, excluding financing costs during construction. This is part of a five-year forecast for the regulatory period expected to deliver a reduction in regulated capital expenditure compared to the AER revenue decision.

Powerlink's capital works expenditure forecast for 2013/14 only includes non-regulated transmission network connections that are under construction or a notice to proceed has been provided by the customer.

Project	Approved Total Cost	Estimated Expenditure 2013/14	Expected Completion Date
<i>Shareholding Minister Approved</i>			
South West Queensland Augmentation	\$190.0 M	\$1.0 M	Summer 13/14
Gladstone Substation Replacement – Stage 1 Calliope Substation – Stage 2 Generator Connections	\$164.0 M	\$7.8 M	Winter '13 Summer 15/16
Columboola to Western Downs Network Augmentation	\$156.0 M	\$53.8 M	Winter '14
Calvale to Stanwell 275kV Transmission Line	\$128.5 M	\$2.4 M	Summer 13/14
<i>Board Approved</i>			
Richlands Substation Primary and Secondary Plant Replacement	\$33.0 M	\$1.1 M	Summer 13/14
Swanbank B 275kV Substation Rebuild	\$57.9 M	\$19.1 M	Summer 14/15
Ingham South to Cardwell 132kV Transmission Line Replacement	\$72.7 M	\$24.4 M	Winter '14
Collinsville 132kV Substation Rebuild	\$33.7 M	\$8.7 M	Winter '14
Blackwall iPASS Secondary Systems Replacement	\$26.2 M	\$3.5 M	Summer 16/17
Braemar iPASS Secondary Systems Replacement	\$22.4 M	\$5.0 M	Winter '15
Bulli Creek iPASS Secondary Systems Replacement	\$22.3 M	\$3.8 M	Winter '14
Bouldercombe Secondary Systems Replacement	\$20.6 M	\$1.3 M	Summer 14/15
Nebo 275/132kV No. 2 Transformer Replacement	\$20.5 M	\$11.0 M	Summer 14/15

Powerlink has the following non-regulated network transmission connections currently under construction or approved.

Approved and Under Construction

- QR National (Aurizon) – Wotonga Rail Connection
- APLNG – Columboola Connection
- APLNG – Orana 275kV Substation Establishment
- APLNG – North West Surat Connection
- GLNG/Santos – Wandoan South Connection

Potential Non-Regulated Projects

Powerlink has advised Projects Queensland of a potential non-regulated investment but has not included this project in the financial forecasts.

Other Major Capital Expenditure Planned to Commence in 2013/14

Shareholding Ministers will be notified of any projects as they occur, and where required, submitted for approval.

Total Capital Expenditure

Description	Approved Total Cost	Estimated Expenditure 2012/13
Total Shareholding Minister Approved	\$638.5 M	\$ 65.0 M
Total Board Approved	\$309.3 M	\$ 77.9 M
Total Non-Prescribed Transmission Network Connections	---	\$234.9 M
Total Other Projects	---	\$300.0 M
TOTAL CAPITAL EXPENDITURE:		\$677.8 M

5 ADDITIONAL MATTERS

5.1 Corporate Governance

The Board will ensure Powerlink takes responsibility to ensure that prudent financial practices will be applied within the corporation. Without limiting the obligations imposed on the Board and the Chief Executive by the *GOC Act* and, where applicable, the *Corporations Act*, this includes a commitment to:

- Comply with the *Code of Practice for Government Owned Corporations' Financial Arrangements* (Code of Practice) as issued by the Queensland Government; and
- Establish, maintain and implement appropriate financial risk management practices and policies required and as specified in the Code of Practice.

5.2 Community Service Obligations

No community service obligations have been identified by Powerlink in 2013/14.

5.3 Capital Structure and Borrowings

The level of borrowings for 2013/14 is **\$284.6 M**.

As an integral part of the financing of the Corporation, the overall debt will be managed to ensure that Powerlink maintains the appropriate credit rating or other rating as directed by shareholding Ministers. Powerlink's Board will ensure it complies with this requirement.

5.4 Dividend Policies

While the dividend process is governed by the *GOC Act* and the *Corporations Act 2001*, the Board will also ensure that Powerlink's dividend policy takes into account the return its shareholders expect on their investments. Powerlink's policy is to recommend and pay a dividend amount equivalent to 80% (or the percentage approved by shareholding Ministers, if different) of Powerlink's "Net Profit After Tax" for 2013/14.

The Board adopts such a policy on the basis of its shareholders agreeing to provide the necessary funding for projects which have received Board and shareholding Ministers' approval or for the maintenance of Powerlink's approved capital structure or for ensuring the operational viability of Powerlink.

When determining the actual dividend to be paid based on the final audited financial results, the Board will ensure shareholding Ministers are consulted through their departments on the level of dividends.

5.5 Employment and Industrial Relations Plan (E&IR Plan)

An Employment and Industrial Relations Plan (E&IR Plan) meeting the requirements of the *GOC Act* is provided to shareholding Ministers as Attachment 2 to this SCI. The remuneration arrangements for the Directors, Chief Executive and all senior executives of Powerlink are also detailed in the E&IR Plan.

5.6 Risk Management

The Board of Directors of Powerlink has ultimate responsibility for the management of all potential internal and external risks for the Corporation. The Corporation's risk identification and management process is monitored by the Audit, Risk and Compliance Committee, which is a subcommittee of the Board and reports to the Board on a regular basis.

The risk management framework is designed to ensure that all potential financial, operational and other risks are regularly identified, assessed, monitored and reported, as appropriate, along with risk mitigation and management plans.

5.7 Salaries and wages

Market median movements in remuneration for energy sector businesses such as Powerlink remain well above inflation. While review and recalibration of organisational resources is being undertaken by Powerlink, as it is in most, if not all, Queensland GOCs, retention of skilled staff with the ability to effectively deliver the desired outcomes is also essential. Appropriate benchmarking of remuneration are a necessary part of retaining these important and skilled resources in the relevant businesses so that appropriate reliability and security standards for Queensland electricity transmission assets can be maintained over time.

5.8 Recruitment

Powerlink has reviewed its recruitment processes.

In 2012, Powerlink implemented a change to the recruitment process such that approval from the Chief Executive and Executive Manager People and Culture is required prior to recruitment commencement. This applies to all recruitment (internal, external, development programs, temporary arrangements), all contingent recruitment and for extension of all contingent arrangements, temporary contracts and all extension of secondment and higher duties positions.

External recruitment is not allowed without the approval from a sub-committee of Powerlink's Human Resources and Remuneration Committee. This applies to all permanent and contingent positions, except for short term needs due to leave or similar.

Requests for external recruitment may arise either from:

- A position being advertised internally and no suitable candidate is able to be sourced from the internal talent pool, and there is no alternate way to fulfil the role responsibilities. e.g. restructuring roles; or
- A vacant position is requested to be considered for external recruitment at the time it is initially being recruited which could arise for a number of reasons, including but not limited to lack of suitable internal candidates to similar positions, known limitations within the organisation or new skill requirements. In these circumstances it will be more efficient and effective to seek internal and external candidates concurrently.

A summary of the sub-committee approvals for external recruitment is provided to the Board at its next available meeting.

6 PERFORMANCE AGREEMENT

6.1 Directors' Statement and Agreement of Shareholding Ministers

This SCI for 2013/14 are presented in accordance with the *GOC Act*.

In accordance with the *GOC Act*, the SCI represents a formal performance agreement between the Board of Powerlink and its shareholding Ministers with respect to the financial and non-financial performance targets specified for the financial year. The SCI also represents an acknowledgment of and agreement to major activities, objectives, undertakings, investments and borrowings of Powerlink for 2012/13.

This SCI is consistent with Powerlink's 2013/14 to 2017/18 Corporate Plan submitted to, and agreed to by, shareholding Ministers in accordance with the *GOC Act*.

In signing the document the Board of Powerlink undertakes to ensure that the document, and all reports to shareholding Ministers, are prepared with accuracy and timeliness.

In signing this document Powerlink's Board undertakes to achieve the targets proposed in the SCI for 2013/14.

Major changes to key assumptions and outcomes detailed in this SCI, and which come to the Board's attention during the year, will be brought to the attention of shareholding Ministers. Any modifications to this SCI will be dealt with in accordance with the *GOC Act*.

This SCI is signed by the Chairman on behalf of all the Directors in accordance with a unanimous decision of the Board of Powerlink.

Stephen Rochester
Chairman

Shareholding Ministers

Tim Nicholls MP
Treasurer and Minister for Trade

Mark McArdle MP
Minister for Energy and Water Supply

7 ATTACHMENTS

Attachment 1

FINANCIAL AND NON-FINANCIAL TARGET DEFINITIONS

Return on Total Assets	$\frac{\text{Earnings Before Interest and Tax (EBIT)}}{\text{Average Total Assets}}$
Dividend Return on Share Capital	$\frac{\text{Dividends}}{\text{Share Capital}}$
Return on Equity	$\frac{\text{Net Profit After Tax (NPAT)}}{\text{Average Total Equity}}$
Debt to Debt + Equity	$\frac{\text{Total Debt}}{\text{Total Debt plus Total Equity (end of year)}}$
Debt to Fixed Assets	$\frac{\text{Total Debt}}{\text{Total Closing Fixed Assets (including WIP)}}$
Interest Cover (EBITDA)	EBITDA / Interest Expense (Cashflow Statement)
Dividends Provided	Dividend calculated using Dividend Payout Ratio (cashflow occurs in following year)
Dividend Payout Ratio	Dividend as % of Net Profit after Tax
Total Distributions	Tax Equivalent Liability + Dividends Provided
Lost Time Injury Frequency Rate (LTIFR)	$\frac{\text{No. of Injury Occurrences} \times 1,000,000}{\text{No. of Hours Worked}}$
Lost Time Injury Duration Rate (LTIDR)	$\frac{\text{No. of Working Days Lost} \times 1,000,000}{\text{No. of Injury Occurrences}}$
System Minute	A measure of energy not supplied during transmission disturbances. One system minute is the amount of energy that would be transported during one minute at the system maximum demand.

EMPLOYEE RELATIONS

1. Employment and Industrial Relations Approach

Powerlink is focused on meeting our obligations to deliver a secure and reliable supply of electricity at the lowest long-run cost to consumer. Powerlink needs to deliver transmission services at the lowest long term costs with an increased focus on improving our productivity across all areas of the business. To support the achievement of that goal, incorporated within the Powerlink Business Strategy is the theme of Safety, People and Culture. The Powerlink Business Strategy also focuses on other themes including Productivity and Performance, which links closely with the Safety, People and Culture.

Powerlink's focus is on delivering specific initiatives relating to leadership, safety and performance and accountability that will support clarity of accountabilities and efficiencies across the business.

To effectively implement change that will have long term benefit to Powerlink's operations, Powerlink strives to take an appropriate consultative approach with staff and to resolve all issues locally within the business.

Employment arrangements within Powerlink continue to be driven by, and integrally linked to, the strategic business objectives. Currently the Working at Powerlink Agreement covers 95% of Powerlink's staff and provides for the terms and conditions of employment for those staff and therefore is significant to Powerlink's employee relations approach.

2. Significant and Emerging Issues

There are several issues to note that influence the current employee relations plan and approach including:

- The Australian Energy Regulator (AER) delivered its final decision on 30 April 2012 in regard to Powerlink's revenue allowance and network performance targets for the next regulatory period (2012/13 to 2016/17). Powerlink is seeking to deliver efficiencies greater than the revenue determination.
- Some challenges continue to exist in the attraction and retention of some skills categories where there is overlap with the skills currently in demand by the resources sector. Powerlink will need to continue to monitor the external environment and develop strategies to address future skill requirements.
- In November 2012 Powerlink implemented a new high level organisational structure aimed at delivering efficiency and improvements in the Powerlink business through clarity of accountability and rationalisation of the executive leadership team. On 1 November 2012, the new "divisions" were established and changes made at Executive level.

Our primary Employment and Industrial Relations goals for this year are to:

- Ensure that the resourcing levels at Powerlink are set at the minimum level to required to operate the business effectively and efficiently by completing ongoing reviews;
- Support the achievement of optimal resource levels by continuing with changes to the recruitment approval process where all recruitment requests are reviewed by the Chief Executive and the Executive Manager People and Culture and all external recruitment is approved by a subcommittee of the Powerlink Board before commencing;
- Better align resources to the efficient delivery of transmission services throughout the business by taking a coordinated approach to the change activities that will embed Powerlink's high level organisational restructure through the organisation;
- Maximise the business benefits and streamline accountabilities from the organisational structural changes and improve the efficiency by completing various process and services reviews; and
- Drive changes to the Powerlink culture to focus on performance, clear accountabilities, accepted decision rights and the achievement of stretch targets.

3. Remuneration Arrangements

The remuneration details for Powerlink's Chief Executive Officer and other senior executives applying on 1 January 2013 are:

CEO / Senior Executives	Base Salary ¹	Employer Superannuation Contributions	Total Fixed Remuneration	Performance Payment in 2011/12 ²
Merryn York, Chief Executive	540,119	54,006	594,125	46,331
Maurie Brennan, Acting Chief Financial Officer	317,564	31,754	349,318	21,683
Julia Smith, Acting Executive Manager People and Culture	233,636	23,362	256,998	20,428
Michelle Palmer, Acting Executive Manager Stakeholder Relations and Corporate Services	207,169	20,715	227,884	13,454
Roland Vitelli, Acting Executive Manager Infrastructure Delivery and Technical Services	293,024	29,300	322,324	25,744
Chris Hazzard, Acting Executive Manager Operations & Field Services	220,788	22,077	242,865	15,045
Garry Mulherin, Acting Executive Manager Investment and Planning	275,584	27,556	303,140	22,212

Note:

¹ Includes any salary sacrifice items (e.g. motor vehicle, superannuation and other benefits) and cash salary.

² Relates to previous financial year and is linked to the achievement of corporate results.

Performance pay for individuals employed under Senior Executive contracts is linked to stretch targets for the organisation and individual performance.

Enterprise agreement employees are also eligible for both:

- a gainsharing payment based on corporate results; and
- performance pay based on individual and small team performance during a financial year and corporate results.

A review of the arrangements for enterprise agreement employees has been undertaken with changes implemented for the 2012/13 period. A further review has commenced for further changes to be made for future years commencing 2013/14.

EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN

1. Employment Conditions

Enterprise Agreement

Employees' current conditions are in accordance with the *Working at Powerlink 2011 Union Collective Agreement* ("the Agreement"), which presently covers 1,010 employees. The Agreement came into operation on 30 March 2012.

The Agreement outcomes complied with the Queensland Government policy and approval processes that applied at the time.

Powerlink plans to implement the requirements of the GOC Wages Policy 2012 as part of future negotiations for a replacement of the Agreement.

The key features of the current Agreement include:

- A three-year Agreement with an operative date of 27 November 2011 and an expiry date of 27 November 2014;
- A 3.5% base wage increase (including a 1% productivity component) plus a further 0.5% off-wages/lump sum productivity payment paid each year on 27 November 2011, 2012 and 2013;
- Indexation of the Transmission Network Reliability Allowance (TNRA) and the Transmission Network Reliability Payment (TNRP) by 3.5% per annum to reflect the base wage percentage increase;
- Indexation of 'agreement based allowances' by 3.5% to reflect the base wage percentage increase per annum; and
- A commitment by employees to participate in a range of broad business and process improvement practices.

The Agreement also outlines specific productivity initiatives to be pursued by Powerlink during the life of the Agreement. These initiatives support the productivity components of the wage increases. As part of the Statement of Corporate Intent reporting processes, Powerlink will continue to provide quarterly progress reports on the achievement of the Agreement's productivity initiatives.

2. Workforce

Powerlink has a resource planning process to look ahead three to five years in conjunction with its programs of works, for both the regulated program as well as the non-regulated program, which supports the resource sector. Each year the planning process is repeated and integrated with the annual budget cycle to ensure that resources are effectively deployed to operate the business soundly. Powerlink will also look for opportunities for efficiency while continuing to operate a reliable network.

The capital program is primarily undertaken by external construction companies, but is designed and project managed by Powerlink employees. Due to variability in the quantum and mix of capital projects, Powerlink uses a combination of permanent, fixed term and labour hire to appropriately resource these project management activities. Any minor variability in resource requirements will be managed by adjusting the levels of labour hire resource.

Workforce Numbers

Workforce Plan	30 June 2013	30 June 2014	30 June 2015
<i>Employment Category:</i>			
Permanent Full Time (including Part-time)	684	684	684
Other Contract	265	265	265
Senior Executive Contract	7	7	7
Apprentices (In House)	33	33	33
Trainees (In House)	37	37	37
Casual and Fixed Term Employees (FTE)	20	20	20
Total Directly Employed Workforce:	1,046	1,046	1,046
Contractor Administration	3	3	3
Contractor Professional	3	3	3
Contractor Technical	50	50	50

3. Redundancy Provisions

Powerlink's redundancy provisions focus on redeployment and retraining, but provide for the following in case of redundancy:

- 6 months notice of redundancy or 13 weeks early separation payment.
- 3 weeks per year of service severance payment with a minimum of 4 weeks (National Employment Standards) up to a maximum of 75 weeks.
- Pro-rata long service leave.
- Accrued recreation leave.
- Outplacement and retraining support.

The Agreement provides a commitment to no forced redundancies, subject to employees accepting reasonable redeployment and retraining. In line with the GOC Wages Policy 2012, Powerlink will approach the next round of bargaining with a view to removing this commitment.

4. Superannuation

Employer superannuation contributions for all employees are made to the Energy Super Superannuation Scheme, except for those employees who had existing membership of QSuper, who may remain in that fund. In accordance with the Agreement, Powerlink contributes 9% (or the appropriate percentage as determined by applicable Superannuation Legislation) of an employee's salary or 10% where the employee contributes 5% of their salary.

5. Consultation

The shareholding Ministers' departments and the Industrial and Employee Relations Division of the Public Service Commission have been consulted on this plan, as have relevant unions.

6. Workplace Health & Safety

Following external review of health and safety strategies Powerlink is progressing with a "Safety Roadmap" that will ensure Powerlink continues to deliver on its commitments regarding safety to our staff, contractors and the community. The Roadmap is expected to be launched in mid April 2013 with the following actions prioritised:

- Develop and communicate the Roadmap for enhancing safety performance;
- Build a visible symbol/brand which represents the vision and expectations of the Executive and Powerlink through workshops aligned with business expectations;
- Develop an organisational risk register and review hazard management processes via Principal hazard risk workshops;
- Implement a behaviour based leadership program to enhance the safety culture.

SPONSORSHIP, ADVERTISING, CORPORATE ENTERTAINMENT & DONATIONS

Sponsorships

Powerlink's sponsorship policy includes a framework upon which all applications are assessed against. Powerlink's framework highlights three key focus areas:

- empowering communities;
- protecting and conserving the environment; and
- supporting safety and well-being.

To be assessed by Powerlink, applicants can submit a request for sponsorship funding in writing, which will be assessed against set criteria for evaluation. To be accepted, the sponsorship must be in line with the framework and provide an appropriate and value for money business outcome.

Any sponsorship greater than \$5,000 that is recommended for funding must also be reviewed and endorsed by the Powerlink Board.

Advertising

Powerlink undertakes very limited advertising. Advertising undertaken generally relates to operational requirements and includes items such as, advertising environmental impact assessment consultation arrangements, notifying communities of helicopter maintenance activities, recruitment, and similar.

Table 1: Sponsorship, Donations, Advertising, Corporate Entertainment and Other (Including Items over \$5,000)

Activity	Description / Benefit	Budget 2012/13 (\$)	Budget 2013/14 (\$)	2013/14 – Quarter (\$)			
				Sept	Dec	Mar	Jun
Sponsorships							
Engineers Australia	EA Branch & Engquest Program	13,000	6,000				6,000
Energy Users Assoc. of Aust.	Conference and Qld Forum	15,000	9,000			9,000	
Planning Institute of Aust.	Conference and Awards	10,000	5,000				5,000
Local Govt. Assoc. of Qld	State and Regional Conferences	24,500	20,000				20,000
Qld Energy Museum	Preservation of Industry Info.	50,000	53,000				53,000
Qld Landcare Foundation	Conference	9,000	10,500			10,500	
Total over \$5,000		121,500	103,500	Nil	Nil	19,500	84,000
Other (total) below \$5,000		75,000	41,500	10,500	10,500	10,500	10,000
Total Sponsorship (1):		196,500	145,000	10,500	10,500	30,000	94,000
Donations							
Total over \$5,000		Nil	Nil	---	---	---	---
Other (total) below \$5,000		---	---	---	---	---	---
Total Donations (2):		Nil	Nil	Nil	Nil	Nil	Nil
Advertising ¹							
Total over \$5,000		---	---	---	---	---	---
Other (total) below \$5,000		---	---	---	---	---	---
Total Advertising (3):		Nil	Nil	Nil	Nil	Nil	Nil

Activity	Description / Benefit	Budget 2012/13 (\$)	Budget 2013/14 (\$)	2013/14 – Quarter (\$)			
				Sept	Dec	Mar	Jun
<i>Corporate Entertainment</i>							
Total over \$5,000		Nil	Nil	---	---	---	---
Other (total) below \$5,000		60,000	60,000	15,000	15,000	15,000	15,000
Total Corporate Entertainment (4):		60,000	60,000	15,000	15,000	15,000	15,000
<i>Other</i>							
Total over \$5,000		---	---	---	---	---	---
Other (total) below \$5,000		---	---	---	---	---	---
Total Other (5):		Nil	Nil	Nil	Nil	Nil	Nil
TOTAL (1)+(2)+(3)+(4)+(5)		256,500	205,000	25,500	25,500	45,000	109,000

¹ As a general policy, Powerlink only undertakes advertising that is directly associated with its operational activities and as such, no details included.

Table 2: Corporate Entertainment – Details of Total Forecast Expenditure under \$5,000.

Activity	Budget 2013/14 (\$)	2013/14 – Quarter (\$) ¹			
		Sept	Dec	Mar	Jun
<i>Corporate Entertainment.</i>					
Staff Functions	28,000	7,000	7,000	7,000	7,000
Business Development	32,000	8,000	8,000	8,000	8,000
Stakeholder and Community Engagement	---	---	---	---	---
TOTAL UNDER \$5,000:	60,000	15,000	15,000	15,000	15,000

¹ Expenditure is GST exclusive.

8 GLOSSARY OF ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APR	Annual Planning Report
COAG	Council of Australian Governments
GOC	Government Owned Corporation
MCE	Ministerial Council on Energy
NEM	National Electricity Market
NER/Rules	National Electricity Rules
RIT-T	Regulatory Investment Test – Transmission
SCER	Standing Council on Energy and Resources
TNSP	Transmission Network Service Provider
WACC	Weighted Average Cost of Capital



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