



Powerlink Queensland
STATEMENT OF CORPORATE INTENT

2014/15

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 upcoming 2014/15 financial year reflecting the initiatives being implemented to focus on efficiency, effectiveness and improved 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 setting cost reduction targets to outperform the AER determination. This will include aligning our workforce to deliver the targeted efficiencies.

Key business initiatives for 2014/15 are presented in Section 3. Section 4 sets out the specific 2014/15 financial and non-financial targets, which incorporate the targeted operational efficiencies and cost reductions (both operating and capital expenditure), while maintaining Powerlink's mandated reliability and security standards.

Powerlink believes that outperforming the AER's controllable operating cost allowance is achievable. For SCI business planning purposes, a stretch target has been adopted to outperform the AER's controllable operating cost allowance.

While Powerlink is required to prepare demand and energy forecasts annually and publish them in a Transmission Annual Planning Report (TAPR) in June each year, Powerlink has committed to updating its demand and energy forecast every six months while there continues to be uncertainty in economic outlook forecasts. This SCI is based on Powerlink's most recent demand and energy forecast prepared in February 2014.

Electricity demand growth has moderated in response to reduced electricity use by consumers due to the uptake of solar PV, a continuing slowdown in the mining and resource sector and price pressure. This means changes to the timing of future network developments and reductions in the amount of network augmentation planned to be undertaken.

The need to replace and refurbish existing aging network assets will continue notwithstanding the slowdown in demand. However, Powerlink will increasingly focus on optimising these replacement works when assets reach the end of their technical life.

Since publication of the June 2013 TAPR forecast, a range of inputs has been updated for the purposes of the mid-year review, including:

- Review of economic data from AEMO
- Solar PV contribution to meeting peak demand
- Direct connect customer forecasts
- Review of actual outcomes in 2013/14 to date
- Changes to Powerlink's forecasting methodology.

This review indicates that the mid-year update for the demand and energy forecasts is lower than the 2013 TAPR forecast. As a result, there is a further planned reduction in capital works projects compared to the previous forecast.

The remaining forecast augmentation capital expenditure in the current regulatory period is concentrated in the Surat and Bowen Basin resource areas. In the Surat Basin, existing customer commitments still point to some network augmentation being required to support system voltages in the area as the load grows.

Augmentation in the Bowen Basin area may be required if export coal market conditions improve.

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 2014/15 is forecast at \$522.9 million.

Regulated capital expenditure accounts for approximately 44% of forecast capex in the 2014/15 financial year.

The capital expenditure forecast changes for the current five-year regulatory period (from 2012/13 to 2016/17), incorporating actual expenditure in previous years, is expected to deliver a reduction in regulated capital expenditure compared to the AER revenue decision.

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 Regulator (AER) completed its "Better Regulation" program in late 2013, which involved the release of a number of guidelines which must be applied to the next regulatory determination processes for electricity transmission and distribution businesses.

The Queensland Government, in its State Budget on 3 June 2014, released a draft plan proposing a program of asset transactions, which included Powerlink Queensland.

The Government has stated that it remains fully committed to seeking a mandate from the Queensland people before divesting itself of any Government business. However, the Government will commence some preliminary due diligence and preparation activities to ensure that Powerlink is able to be completed in a timely manner, should the Government decide to proceed.

Powerlink will continue to assist Government throughout this process and will ensure that the business is operating as efficiently and effectively as possible.

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.
- 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;
- forecast demand growth, 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 and efficient capital works program
- Network performance and utilisation
- Operational efficiency
- Consumers and stakeholders
- Community engagement
- Environment.

Ergon Energy is a key service provider to Powerlink. Powerlink is working with Ergon Energy to ensure relevant services continue to be provided through a commercial framework.

3 CORPORATE BUSINESS STRATEGIES

3.1 Business Strategy

Powerlink's Business Strategy has been developed to provide direction on how the organisation will achieve its Vision:

"Powerlink is a safe, commercial and performance focussed organisation, that creates and delivers valued outcomes."

The Business Strategy will be delivered through the implementation of initiatives that are focussed on achieving our performance goals under four strategic themes. The themes and main initiatives include:

Safe for Life

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

Efficient Performance and Delivery

- Planning standards
- Flexible works delivery model
- Value improvement drive
- Network utilisation

Agile People and Processes

- Employee engagement
- Key business processes

Stakeholder Value Proposition

- Corporate citizenship framework
- Stakeholder engagement framework
- Reputation framework
- Consumer value

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 and will seek to achieve the following performance stretch target for 2014/15:

	2014/15 Stretch Target	2013/14 Stretch Target
PERFORMANCE TARGETS		
• EBIT	\$573.6 M	\$547.4 M
• Net Profit After Tax (NPAT)	\$218.6 M	\$200.9 M
• Capital Expenditure	\$522.9 M	\$677.8 M
• Return on Assets (ROA) ¹	7.2%	7.1%
• Debt / Fixed Assets Ratio	55.2%	57.1%
• Interest Cover Ratio (EBITDA)	3.3	3.2
• Dividend Payout Ratio	80%	80%
• Dividend Provided	\$174.9 M	\$160.7 M
• Dividend Return on Share Capital	43.6%	40.1%
PERFORMANCE INDICATORS		
• Return on Equity (ROE)	8.2%	8.1%
• Debt / Debt + Equity Ratio	61.3%	63.5%

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 stretch target in 2014/15:

	2014/15 Stretch Target	2013/14 Stretch 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	3.0%	3.0%
<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)	3.0	5.0
• LTIDR (Duration Rate)	4.0	5.0
<i>Network Performance</i> ¹	2014 Year	2013 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.

4.4 Assumptions

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

ASSUMPTIONS	2014/15 SCI	2013/14 SCI
<i>Economic Assumptions</i>		
CPI ¹	2.5%	2.5%
Asset Revaluation ¹	2.5%	2.5%
Salaries and Wages Growth ²	3.0%	3.5%
Income Tax Rate	30%	30%
<i>Financial Assumptions</i>		
AER Revenue Cap – Regulated	\$951.8 M	\$901.9 M
<i>Network Assumptions</i>		
Network (Circuit kilometres)	15,653 kms	15,453 kms

¹ Reported 12-month period from March to March.

² Includes estimated Service Target Performance Incentive Scheme Bonus (STPIS) achieved for relevant Calendar Year.

4.5 Financials

4.5.1 Consolidated

Profit and Loss Statement

POWERLINK QUEENSLAND (Consolidated)	2014/15 Stretch Target (\$ M)	2013/14 Stretch Target (\$ M)
<i>Operating Revenue</i>		
Total Operating Revenue:	1,076.1	1,019.7
<i>Operating Expenses</i>		
Controllable Operating Expenses	206.2	190.9
Grid Support Costs	3.8	---
Depreciation	286.2	275.4
Other ¹	6.3	6.0
Total Operating Expenses:	502.5	472.3
Earnings Before Interest and Tax (EBIT)	573.6	547.4
Interest Expense	261.3	260.5
Income Tax Equivalent Expense	93.7	86.0
Net Profit After Tax (NPAT)	218.6	200.9
Dividends Provided for	174.9	160.7

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)	2014/15 Stretch Target (\$ M)	2013/14 Stretch Target (\$ M)
Current Assets		
Cash	30.0	30.0
Receivables	135.2	109.1
Other	43.0	39.7
Total Current Assets:	208.2	178.8
Non-Current Assets		
Investments	---	---
Property, Plant & Equipment	7,893.6	7,786.5
Other	0.3	0.3
Total Non-Current Assets:	7,893.9	7,786.8
TOTAL ASSETS:	8,102.1	7,965.6
Current Liabilities		
Creditors	60.4	58.1
Other	195.9	202.0
Total Current Liabilities:	256.3	260.1
Non-Current Liabilities		
Borrowings	4,359.9	4,447.8
Other	736.9	700.1
Total Non-Current Liabilities	5,096.8	5,147.9
TOTAL LIABILITIES:	5,353.1	5,408.0
NET ASSETS:	2,749.0	2,557.6
Shareholders Equity		
Share Capital	401.0	401.0
Reserves	1,120.1	1,055.6
Retained Earnings	1,227.9	1,101.0
TOTAL SHAREHOLDERS EQUITY:	2,749.0	2,557.6

Shareholder Equity Injections and Withdrawals ¹

POWERLINK QUEENSLAND (Consolidated)	2014/15 Stretch Target (\$ M)	2013/14 Stretch 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)	2014/15 Stretch Target (\$ M)	2013/14 Stretch Target (\$ M)
Dividends Provided	174.9	160.7
Tax Equivalents Expense ²	93.7	86.1

² As identified in Profit and Loss Statement.

Statement of Cash Flows

POWERLINK QUEENSLAND (Consolidated)	2014/15 Stretch Target (\$ M)	2013/14 Stretch Target (\$ M)
<i>Cash Flows from Operating Activities</i>		
Cash Receipts in the course of Operations	1,067.4	1,083.3
Cash Payments in the course of Operations	(238.4)	(189.7)
Interest Received	0.8	0.5
Interest Paid	(261.4)	(260.5)
Tax Equivalent Payments	(89.1)	(84.7)
Net Cash Provided by Operating Activities:	479.3	548.9
<i>Cash Flows from Investing Activities</i>		
Payments for Property Plant and Equip.	(522.9)	(677.8)
Proceeds from Sale of Non-Current Assets	3.3	3.0
Other	---	---
Net Cash used in Investing Activities:	(519.6)	(674.8)
<i>Cash Flows from Financing Activities</i>		
Proceeds from Borrowings	205.7	284.6
Dividends Paid	(165.4)	(158.7)
Other	---	---
Net Cash from Financing Activities:	40.3	125.9
Net Increase/(Decrease) in Cash Held	Nil	Nil
Cash @ Beginning of the Financial Year	30.0	30.0
Cash @ End of the Financial Year	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.

AEMC Contribution Levy

On 6 March 2014, the DEWS Director General wrote to Powerlink advising that from July 2014, a new annual levy would be applied on Powerlink to recover the electricity portion of Queensland's annual AEMC payment.

For 2014/15 this will be \$4.01 million and will be in addition to the current transmission licence fee paid by Powerlink. This new annual levy had not been previously budgeted and has now been included in the forecast. As such the previously targeted 2014/15 operating cost efficiencies will be reduced by this levy.

Regulatory pass through Items

There are a number of cost items that are subject to regulatory “pass through” arrangements, such as some “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 2013 calendar year, Powerlink’s performance exceeded the AER targets, with an estimated bonus of approximately \$20.7 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 2014/15.

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 operational structure as a result of the electricity market reviews, including:

AEMC – Transmission Framework Review

The AEMC completed its review of electricity transmission frameworks in the NEM in April 2013. SCER continues to consider how to progress a number of the key recommendations from the review, including through the national rule change process. Powerlink will continue to engage on this matter through Grid Australia and the ENA as appropriate.

AER – Better Regulation Program

The Australian Energy Regulator (AER) completed its “Better Regulation” program in late 2013. This involved the release of six regulatory guidelines which must be applied to the next regulatory determination processes for electricity transmission and distribution businesses in the NEM.

SCER Review of Enforcement Regimes

The SCER is undertaking a review of enforcement regimes under the national energy laws. This is to ensure that the interests of consumers are protected and the integrity of the energy market is maintained.

Government Policy

Transmission prices

The Queensland Government has expressed a view that any further efficiencies and/or reductions in capital expenditure may 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, an explicit direction to that effect from shareholding Ministers will be required.

Financing structure review

The Queensland Government has recently initiated a review and market sounding of alternative funding structures for future capital expenditure requirements by electricity network business in Queensland. Powerlink has assumed no change in its delivery and operational cost model as a result of any outcomes from the review.

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 2014/15 is forecast to be \$522.9 million, excluding financing costs during construction. This is part of a five-year forecast for the current regulatory period expected to deliver a reduction in regulated capital expenditure compared to the AER revenue decision.

Powerlink's capital works expenditure forecast for 2014/15 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 2014/15	Expected Completion Date
<i>Shareholding Minister Approved</i>			
South West Queensland Augmentation	\$190.0 M	\$0.7 M	Winter 2014
Gladstone Substation Replacement	\$164.0 M	\$3.2 M	Summer 2014/15
<i>Board Approved</i>			
Mackay Substation Replacement	\$32.3 M	\$3.5 M	Summer 2017/18
Swanbank B 275kV Substation Replacement	\$57.9 M	\$8.6 M	Summer 2014/15
Ross Secondary System Replacement	\$27.0 M	\$5.9 M	Summer 2017/18
Nebo 275/132kV No.2 Transformer Replacement	\$20.5 M	\$3.2 M	Summer 2014/15
Blackwall iPASS Secondary System Replacement	\$26.2 M	\$7.9 M	Summer 2016/17
Bulli Creek iPASS Secondary System Replacement	\$22.3 M	\$1.1 M	Winter 2014
Moura Switchyard Replacement	\$24.5 M	\$4.6 M	Summer 2016/17
Bouldercombe Secondary Systems Replacement	\$20.6 M	\$0.4 M	Summer 2014/15
Braemar iPASS Secondary System Replacement	\$22.4 M	\$4.6 M	Summer 2015/16
Collinsville 132kV Substation Replacement	\$33.7 M	\$1.4 M	Winter 2014
Nebo Primary Plant Replacement	\$22.5 M	\$5.3 M	Summer 2018/19

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

Whilst Powerlink is in discussions with a number of entities regarding potential non-regulated transmission connections, none have been included in the financial forecasts.

Other Major Capital Expenditure Planned to Commence in 2014/15

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 2014/15
Total Shareholding Minister Approved	\$354.0 M	\$3.9 M
Total Board Approved	\$309.9 M	\$46.5 M
Total Non-Prescribed Transmission Network Connections	---	\$292.2 M
Total Other Projects	---	\$180.3 M
TOTAL CAPITAL EXPENDITURE:		\$522.9 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.

The Board acknowledges and has put in place governance mechanisms to ensure compliance with GOC policies.

5.2 Community Service Obligations

No community service obligations have been identified by Powerlink in 2014/15.

5.3 Capital Structure and Borrowings

The level of borrowings for 2014/15 is \$205.7 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 2014/15.

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 is a necessary part of retaining these important and skilled resources in the relevant businesses so that appropriate emergency response as well as reliability and security standards for Queensland electricity transmission assets can be maintained over time.

5.8 Recruitment

Powerlink continues to require approval of the Chief Executive in consultation with Executive Manager People and Culture prior to the commencement of all recruitment activities. Approvals involving external recruitment are reported quarterly to the Board.

6 PERFORMANCE AGREEMENT

6.1 Directors' Statement and Agreement of Shareholding Ministers

This SCI for 2014/15 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 2014/15.

This SCI is consistent with Powerlink's 2014/15 to 2018/19 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 2014/15.

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
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

With strong concern about electricity price increases from the community and governments and intense scrutiny on the electricity sector and the contribution of network businesses like Powerlink, it is more important than ever to ensure our business operations are effective and efficient. Powerlink recognises these factors and has responded with a focus on a number of strategic business themes and priorities. This includes an even stronger focus on “efficient performance and delivery” to achieve the agreed stretch target through continuous improvement, while maintaining sound and viable long term business operations and an engaged workforce.

Powerlink’s focus is on delivering specific initiatives relating to leadership, safety performance and accountability that 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 a reasonable and appropriate consultative approach with staff and their representatives 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 2011 Union Collective Agreement* covers approximately 95% of Powerlink’s staff and provides for the majority of the terms and conditions of employment for those staff. In addition, Powerlink strives to encourage direct relationships with staff where it can and this 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 decision in 2012 in regard to Powerlink’s revenue allowance and network performance targets for the regulatory period (2012/13 to 2016/17). Powerlink continues to seek to deliver efficiencies to outperform than the revenue determination whilst commencing a process of preparing for the next regulatory period (2017/18 to 2021/22).
- Rationalisation of Powerlink’s high level organisational structure has delivered efficiency and improvements in the Powerlink business through clarity of accountability. This process of restructuring and clarity in accountability continues to be driven down through the organisation. This has been delivered within the existing arrangements through a process of engagement with staff and consultation on key issues.
- The *Working at Powerlink 2011 Union Collective Agreement* reaches its nominal expiry date on 27 November 2014 and a renegotiation of the Agreement is due to occur during this period.

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

- Ensure that the resourcing levels at Powerlink are set at the optimal level required to operate the business effectively and efficiently by completing ongoing reviews and ensuring recruitment approval requests are approved by the Chief Executive and all external recruitment is reported to the Powerlink Board on a quarterly basis;
- Continue to implement and embed efficiencies gained through the high level organisational restructure by reviewing team resource composition and streamlining accountabilities to ensure minimum levels required to deliver works;
- Continue to improve business efficiency by completing various process and services reviews and drive changes to the Powerlink culture to focus on performance, leadership, accepted decision rights and the achievement of stretch targets; and
- Negotiate and deliver collective arrangements for employees through enterprise agreement negotiations which deliver greater business productivity and flexibility.

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 covers just over 1,000 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.

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 current Agreement. These initiatives support the productivity components of the wage increases as required under the previous policy. 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.

Powerlink plans to implement the requirements of the GOC Wages Policy 2012 as part of negotiations for a replacement Agreement which is anticipated to begin in mid 2014, following Government approval of Powerlink's bargaining framework. Arrangements which allow Powerlink to meet its business needs will be key drivers in this process.

2. Workforce

Powerlink's resource planning process considers workforce requirements to deliver its programs of works, for the regulated program, the non-regulated program (which supports the resource sector) and ongoing operational requirements of the network.

Each year the planning process is integrated with the annual budget cycle to ensure that resources are effectively deployed to operate the business soundly through operating a reliable network and seeking opportunities for efficiency.

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

Workforce

Workforce FTEs ¹	30 June 2014	30 June 2015	30 June 2016
<i>Employment Category:</i>			
Permanent (including Part-time)	935	910	900
Senior Executive	7	7	7
Apprentices (In House)	36	36	36
Trainees (In House)	35	30	23
Casual and Fixed Term Employees (FTE)	20	25	20
Total Directly Employed Workforce:	1,033	1,008	986
Contingent Administration	4	3	3
Contingent Professional	4	3	3
Contingent Technical	26	25	25
Total Workforce (including Contingents):	1,067	1,039	1,017
¹ Full Time Equivalent (FTE) means full time equivalent per annum. Powerlink applies FTE to employees (full time, part time and casual) and contingents. Overtime does not count toward FTEs.			

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 re-negotiating these provisions.

4. Remuneration Arrangements

The remuneration details for Powerlink's Chief Executive Officer and other Senior Executives applying on 1 January 2014 are:

CEO / Senior Executives	Base Salary ¹	Employer Superannuation Contributions	Total Fixed Remuneration	Performance Payment in 2013/14 ²
Merryn York, Chief Executive	588,570	58,858	647,428	54,194
Maurie Brennan, Acting Chief Financial Officer	330,264	33,027	363,291	31,863
Julia Smith, Acting Executive Manager People and Culture	254,595	25,460	280,055	18,754
Michelle Palmer, Acting Executive Manager Stakeholder Relations and Corporate Services	215,453	21,546	236,999	12,268
Roland Vitelli ³ , Acting Executive Manager Infrastructure Delivery and Technical Services	308,442	30,845	339,287	20,581
Chris Hazzard, Acting Executive Manager Operations & Field Services	230,192	23,019	253,211	17,723
Garry Mulherin, Acting Executive Manager Investment and Planning	272,327	27,233	299,560	16,319

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

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

³ The Senior Executive resigned post 1 January 2014. A new Senior Executive is appointed and commenced in April 2014.

5. Superannuation

Employer superannuation contributions for employees who are covered by the Enterprise Agreement are made to the Energy Super Superannuation Scheme. The only exceptions to this are those employees who had existing membership of QSuper, who may remain in that fund, and senior staff who are outside of the agreement and have Super Choice. In accordance with the Agreement, Powerlink currently contributes 9.25% (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.

6. 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.

7. Workplace Health & Safety

Powerlink's Safe For Life program was launched in August 2013 following external review of the approach to safety at Powerlink. The Safe For Life program is progressing to ensure Powerlink continues to deliver our vision of safe outcomes every day for ourselves, our workmates, contractors and the community.

The Safe For Life program includes eight key focus areas which have been prioritised to provide continual improvement in health and safety. Each focus area is supported by a number of projects to facilitate key outcomes. The focus areas include:

- Consistency of health and safety standards
- WHS risk management
- Improve safety event management
- Fit for work
- Improve safety leadership and behaviours
- Implement effective safety measures
- Effective workplace health and safety training
- Contractor management

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 2013/14 (\$)	Budget 2014/15 (\$)	2014/15 – Quarter (\$)			
				Sept	Dec	Mar	Jun
Sponsorships							
Engineers Australia	EA Branch Program	6,000	5,000				5,000
Energy Users Assoc. of Aust.	Conference and Qld Forum	9,000	10,000			10,000	
Planning Institute of Aust.	Conference and Awards	5,000	5,000				5,000
Local Govt. Assoc. of Qld	State and Regional Conferences	20,000	20,000				20,000
Qld Energy Museum	Preservation of Industry Info.	53,000	50,000				50,000
Qld Landcare Foundation	Conference	10,500	10,500			10,500	
Total over \$5,000		103,500	100,500	Nil	Nil	20,500	80,000
Other (total) below \$5,000		41,500	35,000	8,750	8,750	8,750	8,750
Total Sponsorship (1):		145,500	135,500	8,750	8,750	29,250	88,750
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 2013/14 (\$)	Budget 2014/15 (\$)	2014/15 – Quarter (\$)			
				Sept	Dec	Mar	Jun
Corporate Entertainment							
Total over \$5,000		Nil	Nil	---	---	---	---
Other (total) below \$5,000		60,000	60,000	16,000	16,000	16,000	12,000
Total Corporate Entertainment (4):		60,000	60,000	15,000	15,000	15,000	15,000
Other							
Total over \$5,000		---	---	---	---	---	---
Other (total) below \$5,000		---	---	---	---	---	---
Total Other (5):		Nil	Nil	Nil	Nil	Nil	Nil
TOTAL (1)+(2)+(3)+(4)+(5)		205,000	195,500	24,750	24,750	45,250	100,750

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 2014/15 (\$)	2014/15 – Quarter (\$) ¹			
		Sept	Dec	Mar	Jun
<i>Corporate Entertainment</i>					
Staff Functions	25,000	7,000	7,000	7,000	4,000
Business Development	35,000	9,000	9,000	9,000	8,000
Stakeholder and Community Engagement	---	---	---	---	---
TOTAL UNDER \$5,000:	60,000	16,000	16,000	16,000	12,000

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
GSP	Growth State Product
MCE	Ministerial Council on Energy
NEM	National Electricity Market
NER	National Electricity Rules
RIT-T	Regulatory Investment Test – Transmission
Rules	National Electricity Rules
SCER	Standing Council on Energy and Resources
TNSP	Transmission Network Service Provider
WACC	Weighted Average Cost of Capital



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