Powerlink Queensland

Statement of Corporate Intent

2015/16

Prepared by the Directors and Management of Powerlink Queensland for shareholding Ministers, including the:

- Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships
- Minister for Main Roads, Road Safety and Ports and Minister for Energy and Water Supply

QUEENSLAND ELECTRICITY TRANSMISSION CORPORATION LIMITED
ABN 082 078 849 233

Contents

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 2015/16 financial year with initiatives focussed on safety, efficiency, agility and stakeholder value 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 most recent regulatory determination for Powerlink on 30 April 2012, covering 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 assessment by the AER provides revenue which meets the efficient costs associated with meeting the obligations of Powerlink. Powerlink will continue to focus on reducing controllable expenses, pursuing operational efficiencies and has set cost reduction targets to outperform the AER determination. This includes aligning our workforce to deliver the targeted efficiencies.

Key strategic business initiatives for 2015/16 are presented in Section 3. Section 4 sets out the specific 2015/16 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 efficient controllable operating cost allowance is achievable. For business planning purposes in this SCI, a stretch target has been adopted to outperform the AER's controllable operating cost allowance, excluding the Australian Energy Market Commission (AEMC) levy and one off costs. This is in line with the AER allowance with the payment of the AEMC levy and provisions for anticipated employee payments associated with realignment of its workforce.

While Powerlink is required to prepare demand and energy forecasts annually and publishes them in a Transmission Annual Planning Report (TAPR) in June each year, Powerlink has committed to updating its demand and energy forecasts every six months while there continues to be uncertainty in the economic outlook. This SCI reflects Powerlink's most recent demand and energy forecast update published in June 2015.

Electricity demand growth continues to be driven by the progressive ramp-up of the Liquefied Natural Gas (LNG) industry in the Surat Basin. Excluding the LNG demand, underlying electricity demand growth remains relatively flat with reduced electricity demand from the grid due to the uptake of solar photovoltaic (PV), a continuing slowdown in the mining and resource sector and consumer response to electricity prices. This means only limited and regional specific network augmentation is planned to be undertaken over the next five years.

The need to reinvest as network assets reach end of life will continue notwithstanding a flat demand outlook and Powerlink will optimise replacement works for forecast demand.

The June 2015 demand and energy forecasts are similar to the 2014 TAPR forecast. Economic data from Australian Energy Market Operator (AEMO), solar PV contribution and direct connect customers forecast have been updated in conjunction with a review of actual outcomes over the 2014/15 summer period. A small reduction in demand and energy forecast over the next ten years due to lower forecasts provided by Powerlink's direct connect customers compared to the June 2014 TAPR.

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-regulated transmission network connections (all associated with LNG), Powerlink's capital expenditure in 2015/16 is forecast at $221.4 million, which is significantly lower than recent historic levels.

Regulated capital expenditure accounts for approximately 81% of the forecast capex in the 2015/16 financial year. The regulated capital expenditure forecast 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 capital expenditure allowance in the AER's April 2012 revenue determination.

Whilst no new non-regulated transmission network investments are included in this SCI, negotiations continue with for a range of potential proponent driven investments. Powerlink will liaise with shareholding Ministers and their representatives regarding these future non-regulated projects.

Non-regulated investments are core business for Powerlink, with the business able to leverage its existing skills and competencies to deliver and manage these investments over the life of the customer agreements which are typically 20 – 30 years. All non-regulated investments are fully paid for by the proponents over the life of the investment.

These investment opportunities provide a number of benefits for the business and shareholders, including:

- Delivering business returns in the form of increased dividends and tax equivalent payments.
- Creating jobs in the short term during design and construction; as well as in medium to long term though maintenance and operations.
- Allowing skills retention in the electricity sector.

- Delivering investment in regional areas and enhances regional development opportunities.
- Contributing to growing the Queensland economy.
- Retaining ownership by the GOC and the workforce required to develop and manage the assets.

Powerlink has operated successfully in the non-regulated investment environment delivering enhanced returns to shareholders. However, the market for non-regulated transmission connections in Queensland is becoming significantly more competitive.

Powerlink is aware that some customers are investigating commercial terms with alternative providers. In addition, other transmission providers have stated their intentions or initiated actions to grow their non-regulated business, including entering the Queensland transmission services market.

These factors mean that for Powerlink to continue to be successful, it needs to position itself well from a commercial terms point of view and become more proactive in developing its business credentials and market responsiveness.

Powerlink is proactively progressing business development activities. Failure to undertake such business development activities will ultimately lead to a deterioration of Powerlink's market position.

Shareholding Ministers issued a direction under the *Government Owned Corporations Act* (GOC Act) to Powerlink on 29 June 2015 in relation to the payment of dividends for the 2014/15 financial year. The dividend direction included a special dividend of $1,121 million from Powerlink's retained earnings.

Powerlink's 2015/16 SCI forecast takes into account the additional debt borrowings requirements to meet the dividend requirement.

Although Powerlink's standalone independent credit rating may be impacted by the additional debt, this will not impact on the competitive neutrality fee (CNF) rate applicable to Powerlink. The CNF rate was locked in for Powerlink at the commencement of the regulatory period in July 2012 and will remain unchanged until June 2017.

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

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 (T01/98) 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 (regulated) 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 outlook with LNG demand growth;
- mandated reliability of supply obligations (which were reduced in July 2014);
- the location of generation; and
- key legislative requirements.

The key drivers for Powerlink in this environment include:

- Safety
- Stakeholder Engagement, including consumers
- Macro-economic conditions affecting Queensland and forecast economic growth
- Regulatory relationships and outcomes
- Technological advancements
- Meeting environmental obligations
- Network performance and utilisation
- Efficient capital works, maintenance and operations

3 CORPORATE BUSINESS STRATEGIES

3.1 Business Strategy

Powerlink's Business Strategy is 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 objectives through four strategic themes. The themes and main initiatives include:

Safe for Life

- Improved safety event management

Efficient Performance and Delivery

- Leadership development
- Enhance Network investment initiation
- Enterprise Governance

Agile People and Processes

- Forecasting and managing organisational resources
- Improving key business processes
- Employee culture and engagement
- ICT Strategy and Maturity Roadmap

Stakeholder Value Proposition

- Corporate citizenship framework
- Stakeholder engagement framework
- Non-regulated business development and retention

4 BUSINESS PERFORMANCE

4.1 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 targets for 2015/16:

	2015/16 STRETCH TARGET	2014/15 [1] STRETCH TARGET
PERFORMANCE TARGETS		
EBIT	$606.5 M	$573.6 M
Net Profit After Tax (NPAT)	$205.1 M	$218.6 M
Capital Expenditure	$221.4 M	$522.9 M
Return on Assets (ROA) [2]	7.4%	7.2%
Net Debt / Fixed Assets Ratio	65.9% [3]	55.2%
Net Debt / Regulated Assets Ratio	75.0%	N/A
Interest Cover Ratio (EBITDA)	2.9	3.3
Dividend Payout Ratio	100%	80%
Dividend Provided	$205.1 M	$174.9 M
Dividend Return on Share Capital	51.1%	43.6%
PERFORMANCE INDICATORS		
Return on Equity (ROE)	12.5%	8.2%
Debt / Debt + Equity Ratio	75.5%	61.3%

[1] – 2014/15 Statement of Corporate Intent (SCI) Plan Target

[2] – Achieves Powerlink's Regulatory WACC

[3] – Ratio changed to "Net Debt" from 2015/16. The 2014/15 SCI Stretch target is based on "Total Debt"

4.2 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 2015/16:

	2015/16 STRETCH TARGET	2014/15 [1] STRETCH TARGET
PERFORMANCE TARGETS		
Cost Efficiency		
Total Network Maintenance Cost / Depreciated Asset Value	1.6%	1.7%
Total Controllable Operating Cost / Depreciated Asset Value	3.1% [2]	3.0%
Environment	**OBJECTIVE:** To be compliant with relevant legislation. Any reportable instances that may occur will be reported. **TARGET:** To be materially compliant.	
Safety		
LTIFR (Frequency Rate)	2.5	3.0
LTIDR (Duration Rate)	3.0	4.0
Network Performance [3]	2015 Year	2014 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%	≥ 97.15%
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] – 2014/15 Statement of Corporate Intent (SCI) Plan Target.

[2] – Controllable operating costs includes AEMC levy and one-off costs (provisions for employee payments).

[3] – Applies to Calendar Year.

4.3 Assumptions

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

ASSUMPTIONS	2015/16 SCI	2014/15 SCI [1]
Economic Assumptions		
CPI [2]	1.3%	2.5%
Asset Revaluation [2]	2.5%	2.5%
Salaries and Wages Growth	3.0%	3.0%
Income Tax Rate	30%	30%
Financial Assumptions		
AER Revenue Cap – Regulated [3 4]	$ 980.3 M	$951.8 M
Network Assumptions		
Network (Circuit kilometres)	15,090 kms	15,653 kms

1 – 2014/15 Statement of Corporate Intent (SCI) Plan Target.

2 – Reported 12-month period from March to March.

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

4 – In 2014/15, Powerlink changed its approach to accounting for the regulated revenue cap to no longer recognise an asset or liability for the under or over recovery of the regulated revenue cap. As such, the AER Revenue Cap will not match the Regulated Revenue presented in the Income Statement.

4.4 Financials

4.4.1 Consolidated

Profit and Loss Statement

POWERLINK QUEENSLAND (CONSOLIDATED)	**2015/16** STRETCH TARGET ($ M)	**2014/15** [1] STRETCH TARGET ($ M)
OPERATING REVENUE		
Total Operating Revenue:	1,159.2	1,076.1
OPERATING EXPENSES		
Controllable Operating Expenses	228.7	206.2
Grid Support Costs	3.5	3.8
Depreciation	314.2	286.2
Other [2]	6.3	6.3
Total Operating Expenses:	552.7	502.5
Earnings Before Interest and Tax (EBIT)	**606.5**	**573.6**
Interest Expense	313.5	261.3
Income Tax Equivalent Expense	87.9	93.7
Net Profit After Tax (NPAT)	**205.1**	**218.6**
Dividends Provided for	**205.1**	**174.9**

Notes:

1 – 2014/15 Statement of Corporate Intent (SCI) Plan Target.

2 – 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)	**2015/16** STRETCH TARGET ($ M)	**2014/15** [1] STRETCH TARGET ($ M)
CURRENT ASSETS		
Cash	30.0	30.0
Receivables	94.0	135.2
Other	51.8	43.0
Total Current Assets:	**175.8**	**208.2**
NON-CURRENT ASSETS		
Investments	---	---
Property, Plant & Equipment	7,922.7	7,893.6
Other	20.6	0.3
Total Non-Current Assets:	**7,943.3**	**7,893.9**
TOTAL ASSETS:	**8,119.1**	**8,102.1**
CURRENT LIABILITIES		
Creditors	37.8	60.4
Other	221.8	195.9
Total Current Liabilities:	**259.6**	**256.3**
NON-CURRENT LIABILITIES		
Borrowings	5,249.2	4,359.9
Other	904.1	736.9
Total Non-Current Liabilities	**6,153.3**	**5,096.8**
TOTAL LIABILITIES:	**6,412.9**	**5,353.1**
NET ASSETS:	**1,706.2**	**2,749.0**
SHAREHOLDERS EQUITY		
Share Capital	401.0	401.0
Reserves	1,230.6	1,120.1
Retained Earnings	74.6	1,227.9
TOTAL SHAREHOLDERS EQUITY:	**1,706.2**	**2,749.0**

[1] – 2014/15 Statement of Corporate Intent (SCI) Plan Target.

Shareholder Equity Injections and Withdrawals [1]

POWERLINK QUEENSLAND (CONSOLIDATED)	2015/16 STRETCH TARGET ($ M)	2014/15 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)	2015/16 STRETCH TARGET ($ M)	2014/15 [1] STRETCH TARGET ($ M)
Dividends Provided	205.1 [3]	174.9
Tax Equivalents Expense [2]	87.9	93.7

1 – 2014/15 Statement of Corporate Intent (SCI) Plan Target.

2 – As identified in Profit and Loss Statement.

3 – Dividend payout ratio now 100% of NPAT.

Statement of Cash Flows

POWERLINK QUEENSLAND (CONSOLIDATED)	2015/16 STRETCH TARGET ($ M)	2014/15 [1] STRETCH TARGET ($ M)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts in the course of Operations	1,298.8	1,067.4
Cash Payments in the course of Operations	(294.3)	(238.4)
Interest Received	3.1	0.8
Interest Paid	(313.5)	(261.4)
Tax Equivalent Payments	(86.2)	(89.1)
Net Cash Provided by Operating Activities:	**607.9**	**479.3**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Property Plant and Equip.	(221.4)	(522.9)
Proceeds from Sale of Non-Current Assets	3.3	3.3
Other	---	---
Net Cash used in Investing Activities:	**(218.1)**	**(519.6)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Borrowings	805.0	205.7
Dividends Paid	(1,278.5)	(165.4)
Other	---	---
Net Cash from Financing Activities:	**(473.5)**	**40.3**
Net Increase/(Decrease) in Cash Held	**(83.7)**	**Nil**
Cash @ Beginning of the Financial Year	113.7	30.0
Cash @ End of the Financial Year	**30.0**	**30.0**

[1] – 2014/15 Statement of Corporate Intent (SCI) Plan Target.

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 (QTC). 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 at year end, with most of this residing in QTC's cash account at any given time.

4.4.2 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 and Revenue Cap Accounting Changes

Powerlink's AER regulatory determination revenue for 2015/16 has been adjusted for actual CPI of 1.3%, which is lower than previous years.

In 2014/15, Powerlink changed its approach to accounting for the regulated revenue cap to no longer recognise an asset or liability for the under or over recovery of the regulated revenue cap. As such, the AER Revenue Cap will not match the Regulated Revenue presented in the Income Statement.

AEMC Contribution Levy

On 6 March 2014, the Department of Energy and Water Supply (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.

From 2014/15 this will be $4.01 million and will be in addition to the current transmission licence fee paid by Powerlink. The AER determined operating cost allowance did not include provision for 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 some level of 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 2014 calendar year, Powerlink's performance exceeded the AER targets, with an approved bonus of $4.17 million. The service standard bonus has been included in the regulated revenue cap for 2015/16.

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 adopted a dividend payout ratio policy of 100% which is used for business planning purposes.

Contestability

It is assumed that:

- Powerlink will continue to be a monopoly owner of regulated 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.

Non-regulated Network Investments

For business planning purposes, Powerlink has only included capital expenditure for approved and committed non-regulated network investments.

To be successful in the new competitive non-regulated environment, Powerlink is progressing business development initiatives.

Electricity Market Reviews

Powerlink has assumed no significant change affecting its financial position or operational structure as a result of the electricity market reviews. eg. Energy Market Governance Review, network investment reforms, Senate Inquiry (electricity networks), etc.

Government Policy

The Queensland Government policy is to consolidate the electricity network businesses. Powerlink has assumed no changes in its financial position as a result of potential changes in the operational structure. Targeted controllable operating and capital cost savings incorporated in the SCI financial forecasts are independent of any future changes in the operational structure.

Revenue Cap Accounting Changes

Powerlink's practice is to reflect the Annual Regulated Revenue Cap in the Profit and Loss Statement, which includes the accrual of any under / over recovery of revenue collections. Dividend calculations are based on the accrued Regulated Revenue Cap. Under / over recoveries are only a cashflow issue for the organisation.

Powerlink's external auditors have indicated potential accounting changes that may require Powerlink only bringing to account Regulated revenue collections and not the Regulated Revenue Cap. As such, all financial forecasts (including dividends) would be impacted by the actual under / over recovery of regulated revenue in the financial year. Any profit and dividend impact is a timing issue only and is offset in subsequent financial years (ie. increase or decrease).

4.5 Capital Expenditure Program

Proposed Capital Works Expenditure

Regulated investments greater than $120 million and non-regulated investments greater than $60 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 2015/16 is forecast to be $221.4 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 capital expenditure allowance in the AER revenue decision, due to a combination of changes in forecast electricity demand, review of risk levels associated with replacement of aged assets and changes in the mandated reliability of supply standards following the AER's regulatory decision in April 2012.

Powerlink's capital works expenditure forecast for 2015/16 only includes approved non-regulated transmission network connections that are under construction.

Project	Approved Total Cost	Estimated Expenditure 2015/16	Expected Completion Date
SHAREHOLDING MINISTER APPROVED None			
BOARD APPROVED Bulli Creek iPass Secondary System Replacement	$25.3M	$1.6M	Summer 15/16
Braemar iPASS Secondary System Replacement	$27.0M	$3.4M	Summer 16/17
Swanbank B 275kV Substation Rebuild	$57.9M	$2.7M	Summer 15/16
Moura Switchyard Replacement	$24.5M	$4.1M	Summer 16/17
Blackwall iPASS Sec Sys Replacement	$26.2M	$6.2M	Summer 17/18
Mackay Substation Replacement	$32.3M	$1.0M	Summer 17/18
Ross Secondary Systems Replacement	$27.0M	$2.0M	Summer 17/18
Rocklea Sec Sys Replacement	$10.5M	$3.0M	Summer 17/18
Callide A Switchyard Replacement	$34.8M	$1.5M	Summer 18/19
Stanwell Secondary Systems Replacement	$16.2M	$1.5M	Summer 18/19
Nebo Primary Plant Replacement	$22.5M	$6.5M	Summer 19/20

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

- QR National (Aurizon)
- APLNG
- GLNG/Santos

Potential Non-Regulated Projects

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

Other Major Capital Expenditure Planned to Commence in 2015/16

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 2015/16
Total shareholding Minister Approved	---	---
Total Board Approved	$ 444.3 M	$ 60.8 M
Total Other Projects [1]	---	$ 160.6 M
	TOTAL CAPITAL EXPENDITURE:	**$ 221.4 M**

[1] – Includes Projects yet to be considered and approved by the Powerlink Board.

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 2015/16.

5.3 Capital Structure and Borrowings

New debt borrowings for 2015/16 of $ 805.0 M is forecast for the year.

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. In response to shareholding Ministers' correspondence, Powerlink's policy has been increased to recommend and pay a dividend amount equivalent to 100% (or the percentage approved by shareholding Ministers, if different) of Powerlink's "Net Profit After Tax" for 2015/16.

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 2015/16 is 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 2015/16.

This SCI is consistent with Powerlink's 2015/16 to 2019/20 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 2015/16.

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.

Dr Julie Beeby
Chairman

<u>Shareholding Ministers</u>

....	....
Curtis Pitt MP	Mark Bailey MP
Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships	**Minister for Main Roads, Road Safety and Ports and 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	$\frac{\text{Total Debt}}{\text{Total Debt \underline{plus} Total Equity (end of year)}}$
Net Debt to Fixed Assets	$\frac{\text{Total Debt \underline{less} Cash}}{\text{Total Closing Fixed Assets (\underline{including} WIP)}}$
Net Debt to Regulated Assets	$\frac{\text{Total Debt \underline{less} Cash}}{\text{Total Closing Regulated Fixed Assets (\underline{including} WIP)}}$
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)	$\frac{\text{No. of Injury Occurrences x 1,000,000}}{\text{No. of Hours Worked}}$
Lost Time Injury Duration Rate (LTIDR)	$\frac{\text{No. of Working Days Lost}}{\text{No. of Injury Occurrences}}$
System Minute	A measure of energy not supplied during transmission disturbances. One system minute is the amount of energy that would be transported within Queensland during one minute at the system maximum demand.

Attachment 2: Employee Relations

1. Employment and Industrial Relations Approach

With ongoing concern about electricity price increases and intense scrutiny on the electricity sector regarding the contribution of network businesses like Powerlink to electricity prices, it is more important than ever to ensure our business operations are effective and efficient. Powerlink recognises the changes in the external environment and is focused on being a safe, commercial and performance focused organisation that creates and delivers valued outcomes.

Powerlink's priority continues to be on the delivery of its business strategy and a number of strategic themes and initiatives. Specific initiatives relating to commercial and change leadership, the delivery of efficiency gains and building our social licence to operate by meaningfully engaging with our stakeholders are central to this.

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.

Powerlink's aim is to have employment arrangements that support the delivery of the strategic business priorities and positively contribute to the businesses response to the changed environment.

The *Powerlink Managers Enterprise Agreement 2014* which covers approximately 6% of the workforce is aligned to the organisational architecture and recognises the important role of leadership in driving business outcomes.

The *Working at Powerlink 2015 Union Collective Agreem*ent covers approximately 89% 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 constructive relationships with staff 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 the revenue determination whilst commencing a process of preparing for the next regulatory period (2017/18 to 2021/22);

- Factors in the external environment such as tighter regulatory controls, increased stakeholder expectations, and falling consumer electricity demand are impacting on the network and our business. This will require review of workforce capacity to ensure it is set at the optimal level required to operate the business efficiently and that the necessary skill mix is built and maintained to meet these challenges; and
- The *Working at Powerlink 2015 Union Collective Agreement* has recently been negotiated within the framework of the 2015 GOC Wages and Industrial Relations Policy and guidance from shareholding Ministers. Once approved the Agreement will operate from 1 March 2015 for a duration of three years.

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

- Continue to implement and embed further efficiencies gained through the organisational restructure via clarified accountabilities, ongoing process review and improvement and enhanced employment frameworks such as the new *Powerlink Managers Enterprise Agreement 2014*;
- Implement the terms and conditions of the newly negotiated *Working at Powerlink 2015 Union Collective Agreement* and ensure the delivery of business productivity to offset the cost of the wage increase payable under the Agreement; and
- Accelerate business efficiency by driving changes to the Powerlink culture to focus on performance, leadership, accepted decision rights and the achievement of stretch targets.

EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN

1. Employment Conditions

Enterprise Agreements

Conditions of employment for Powerlink employees are regulated by either:

- the *Working at Powerlink 2015 Union Collective Agreement* (the Working at Powerlink Agreement*); or
- the *Powerlink Managers Enterprise Agreement 2014*.

Powerlink finalised negotiations for the replacement Working at Powerlink Agreement in April 2015. The Working at Powerlink Agreement is Powerlink's primary enterprise agreement covering approximately 89% (946) of employees.

➢

The key features of the Working at Powerlink Agreement include:

- 3% wage and related allowance increase per annum for the life of the Agreement (three years).
- Wage increase backdated to 1 March 2015.
- No forced redundancies maintained for the life of the new Agreement.
- Existing consultation provisions to remain in place with an additional obligation on Powerlink to consult on changes to rosters or hours of work.
- Absorption of the Transmission Network Reliability Allowance/Payment into base rates of pay.
- All other key terms and conditions of the existing Agreement maintained.

The key features of Powerlink's new Managers Agreement, which covers approximately 6% (58) of employees, include:

- A three year agreement operative from 21 January 2015 until 21 January 2018;
- A base wage increase of 2.75% per annum [1].
- An annualised salary paid to all Managers including a 13% all-purpose flexibility loading with no additions, penalties or other allowances paid. (Note an alternative 16.5% all-purpose flexibility loading is paid to employees on a 24/7 'on call' availability roster).
- A flexible 38 hour working week with no additional compensation paid for reasonable additional hours.
- Optional individual employment agreements (Alternative Working Arrangements) based on a total employment cost (TEC) contract basis.

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[1] This provision will however administratively operate consistent with the remuneration arrangements contained within the Working at Powerlink 2015 Agreement.

- 'Choice' in complying superannuation funds and superannuation payments at the rate of the commonwealth Superannuation Guarantee Contribution Levy (currently 9.5%), or 10% where an employee elects to contribute 5%.
- A two week minimum period in acting/relieving roles before higher duties can be paid.
- The ability to 'cash out' excess annual leave provided a minimum balance of 4 weeks annual leave is maintained.
- Continuation of existing redundancy benefits with a reduction in salary maintenance arrangements to a maximum 12 month period in the event of redeployment.
- A simplified Agreement incorporating the Fair Work Act's 'model' consultation, dispute resolution and individual flexibility terms and removing all restrictions on the use of contractors and any conditions not relevant to Powerlink Managers.
- A no further claims clause prohibiting the parties from making any extra claims in relation to employment conditions during the life of the Agreement.

Enterprise Agreements within Powerlink have been and will continue to be negotiated within the State Government GOC Wages policy as required.

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, with design and project management 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 primarily be managed by adjusting the levels of labour hire resources.

Workforce

Workforce FTEs [1]	30 June 2015
Employment Category:	
Permanent (including Part-time)	903
Senior Executive	7
Apprentices (In House)	36
Trainees (In House)	34
Casual and Fixed Term Employees (FTE)	20
Total Directly Employed Workforce:	**1,000**
Contingent Administration	4
Contingent Professional	5
Contingent Technical	30
Total Workforce (including Contingents):	**1,039**

[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 Working at Powerlink Agreement provides a commitment to no forced redundancies, subject to employees accepting reasonable redeployment and retraining.

The *Powerlink Managers Enterprise Agreement 2014* provides substantially similar redundancy benefits, however the commitment to 'no forced redundancies' is limited to employees who were permanently employed by Powerlink at the date the Agreement was approved by the Fair Work Commission (13 January 2015). This provision will however operate in conjunction with the 'employment security' provisions of the GOC Wages and Industrial Relations Policy 2015.

4. Remuneration Arrangements

The remuneration details for Powerlink's Chief Executive Officer and other Senior Executives applying on 1 January 2015 are:

CEO / Senior Executives	Base Salary [1]	Employer Superannuation Contributions	Total Fixed Remuneration	Performance Payment in 2014/15 [2]
Merryn York, Chief Executive	606,273	60,627	666,900	47,510
Maurie Brennan, Chief Financial Officer	341,863	34,187	376,050	25,170
Julia Smith, Executive Manager People and Culture	266,727	26,673	293,400	20,190
Michelle Palmer, Executive Manager Stakeholder Relations and Corporate Services	226,227	22,623	248,850	18,765
Greg Rice Executive Manager Infrastructure Delivery and Technical Services	316,091	31,609	347,700	- [3]
Chris Hazzard, Acting Executive Manager Operations & Field Services	238,863	23,887	262,750	15,035
Garry Mulherin, Executive Manager Investment and Planning	326,545	32,655	359,200	29,020

[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] – Greg Rice was technically eligible for a performance payment but was not employed for the majority of the performance year and therefore was appraised as fully effective which does not result in payment (start date 7 April 2014).

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 was undertaken with changes being implemented which continue to reduce the percentage of gainsharing payment available to employees over the next year whilst improving the ability to differentiate reward for outstanding performance.

5. Superannuation

Employer superannuation contributions for employees who are covered by the Working at Powerlink 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, designated managers covered by the *Powerlink Managers Enterprise Agreement 2014* and senior staff who are outside of the agreement and have Super Choice. In accordance with the Working at Powerlink Agreement, Powerlink currently contributes 9.5% (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

The Powerlink strategic initiatives to improve safety performance (Safe for Life initiatives) include eight key focus areas which have been prioritised to provide continual improvement in health and safety. 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

The strategic initiatives are designed to create a significant step change in Powerlink Safety Management capability.

Delivery of these initiatives as part of the Safe For Life Program is designed to be structured over 3 years. The goals delivered to date include safety leadership development, rationalised safety documentation, and improved tools for managing and learning from safety incidents. Further work is programmed to continue the delivery of these initiatives including the introduction of new Safety Management IT Capability to manage business wide health and safety. The IT capability will reduce duplication in handling of data collection and analysis tools with substantially improved reporting functions.

Attachment 3: Sponsorship, Advertising, Corporate Entertainment and 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 2014/15 ($)	Budget 2015/16 ($)	2015/16 – Quarter ($)			
				Sept	Dec	Mar	Jun
SPONSORSHIPS							
Engineers Australia	EA Branch Program	5,000	5,000				5,000
Energy Users Assoc. of Aust.	Conference and Qld Forum	10,000	15,000			15,000	
Planning Institute of Aust.	Conference and Awards	5,000	10,000				10,000
Local Govt. Assoc. of Qld	State and Regional Conferences	20,000	20,000				20,000
Qld Energy Museum	Preservation of Industry Info.	50,000	---				
Qld State Emergency Service	Statewide equipment sponsor	---	50,000			50,000	
Qld Landcare Foundation	Conference	10,500	11,000			11,000	
Total over $5,000		**100,500**	**111,000**	**Nil**	**Nil**	**76,000**	**35,000**
Other (total) below $5,000		35,000	30,000	8,750	8,750	3,750	8,750
Total Sponsorship (1):		**135,500**	**141,000**	**8,750**	**8,750**	**79,750**	**43,750**
DONATIONS							
Total over $5,000		**Nil**	**10,000**	**---**	**10,000**	**---**	**---**
Other (total) below $5,000		---	---	---	---	---	---
Total Donations (2):		**Nil**	**10,000**	**Nil**	**10,000**	**Nil**	**Nil**
ADVERTISING [1]							
Total over $5,000		---	---	---	---	---	---
Other (total) below $5,000		---	---	---	---	---	---
Total Advertising (3):		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

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

Activity	Description / Benefit	Budget 2014/15 ($)	Budget 2015/16 ($)	2015/16 – 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**	**16,000**	**16,000**	**16,000**	**12,000**
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**	**211,000**	**24,750**	**34,750**	**95,750**	**55,750**

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

Activity	Budget 2015/16 ($)	2015/16 – Quarter ($)			
		Sept	Dec	Mar	Jun
CORPORATE ENTERTAINMENT.					
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

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
DEWS	Department of Energy and Water Supply
GOC	Government Owned Corporation
GSP	Growth State Product
LNG	Liquefied Natural Gas
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
TAPR	TransmissionAnnual Planning Report
TNSP	Transmission Network Service Provider
WACC	Weighted Average Cost of Capital

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