



Powerlink Queensland

Statement of Corporate Intent

2016/17

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

- Treasurer, Minister for Aboriginal and Torres Strait Islander Partnerships, and Minister for Sport
- Minister for Main Roads, Road Safety and Ports, and Minister for Energy, Biofuels 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 Act 1993* (GOC Act). Powerlink develops, owns, operates and maintains the Queensland electricity transmission grid.

Powerlink has prepared this Statement of Corporate Intent (SCI) taking into consideration the expectations of its shareholding Ministers as presented in its Shareholder Mandate.

Powerlink is pursuing operational efficiencies in response to a flat outlook for electricity demand growth and consumers' response to electricity prices, and in line with its regulatory submission to the AER on 28 January 2016. The SCI for the 2016/17 financial year reflects this and other business initiatives that are focussed on safety, efficiency and innovation, the workplace, business reputation, the future regulated network and non-regulated business. The SCI reflects the strategic issues and goals of Powerlink, with the longer term matters outlined in the Powerlink 2016/17 Corporate Plan, which is provided separately to shareholding Ministers.

Powerlink derives approximately 85% of its revenue from the provision of prescribed (regulated) transmission services. Powerlink will continue to focus on reducing controllable expenses, pursuing operational efficiencies and aligning our workforce to deliver targeted efficiencies reflected in the SCI forecasts.

Powerlink's 2016/17 SCI financial forecast targets outperform the Australian Energy Regulator's (AER) controllable operating cost allowance. Excluding the Australian Energy Market Commission (AEMC) levy and one-off expenditure items, regulated controllable operating expenditure in 2016/17 is planned to be below the AER allowance.

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) installations, a continuing slowdown in the mining and resource sector and consumer response to electricity prices.

The 2016 Transmission Annual Planning Report (TAPR) issued in July 2016 expects 2024/25 demand to be down by 0.7%, and energy delivered from the transmission system to be down 0.8% over the 10-year forecast period, compared to the June 2015 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.

The demand outlook means there is virtually no network augmentation required 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 actual and forecast regulated capital expenditure for the current five-year regulatory period (from 2012/13 to 2016/17) is expected to deliver a reduction compared to the capital expenditure allowance in the AER's April 2012 revenue determination. The lower level of capex is reflective of Powerlink's prudent approach to avoid the prospect of over-investment.

No new non-regulated transmission network connection investments are included in this SCI.

Powerlink's capital expenditure in 2016/17 is forecast at \$179.6 million, which is lower than recent historic levels.

Powerlink now has a significant portfolio of non-regulated network investments with completion of LNG related transmission works in the Surat region. Powerlink will utilise its skills and competencies to operate, maintain and manage these assets over the life of the customer agreements, which are typically 20 – 30 years.

These non-regulated investments are expected to provide a number of benefits for the business and shareholders, including:

- Delivering enhanced business returns in the form of increased dividends and tax equivalent payments.
- Retaining jobs in the short term during design and construction; as well as in the medium to long term through ongoing maintenance and operations.
- Allowing skills retention in the business.
- Contributing to growing the Queensland economy.

Whilst no new non-regulated transmission network investments are included in this SCI, discussions and negotiations continue for a range of potential proponent driven investments, with a strong focus on renewable generation connections.

The economic regulator for electricity transmission is the AER. Powerlink lodged its Revenue Proposal for prescribed transmission services for the regulatory period from 1 July 2017 to 30 June 2022 with the AER on 28 January 2016. The price of electricity continues to be a key issue for Queensland businesses and households. A 28% reduction in the indicative transmission price is expected in the first year of Powerlink's 2018–2022 regulatory period. Depending on tariffs and consumption, this is a saving of between \$22 and \$37 for the average Queensland household annual electricity bill.

The AER delivered its Draft Decision on Powerlink's Revenue Proposal on 29 September 2016. The Draft Decision is part of a staged revenue determination process that will result in a Final Decision by 30 April 2017. Once finalised, the decision will set out Powerlink's maximum allowed revenue for the period from 1 July 2017 to 30 June 2022.



While the Draft Decision does not impact Powerlink's 2016/17 SCI, it is worthwhile noting that the AER accepted Powerlink's proposed approach to rate of return and forecast operating expenditure, but reduced Powerlink's forecast capital expenditure. Powerlink will continue to engage with the AER, customers and consumers to seek feedback and input, ahead of submitting a revised Revenue Proposal to the AER by 1 December 2016.

In line with its Shareholder Mandate, for business planning purposes, Powerlink has adopted a 100% dividend payout policy and additional special dividends that target a gearing level for the regulated business that equates to a forecast Net Debt to Regulatory Asset Base (RAB) ratio of approximately 75% at 30 June 2017.

Powerlink's total forecast dividend for 2016/17 is **\$439.4 million** (including a special dividend of \$160 million). No additional net borrowings are expected in 2016/17.

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 National Electricity Market (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 are to:

- Deliver transmission services to consumers and electricity market participants through the 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
 - Jurisdictional Planning Body for electricity transmission in Queensland
- Other services including the provision of technical services, wholesale telecommunication 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 Allowed Revenue (MAR) determined by the AER, with adjustments for the AER Service Target Performance Incentive Scheme (STPIS).

3 CORPORATE BUSINESS STRATEGIES

Shareholding Ministers have approved a Shareholder Mandate for Powerlink that provides guidance to the Board regarding the strategic and operational landscape within which the shareholding Ministers expect Powerlink to operate. The SCI has been prepared taking these expectations into consideration and incorporates opportunities for delivering efficiency gains that enhance business value for the State, and ultimately all Queenslanders through strong and sustainable dividend streams.

3.1 Business Strategy

Powerlink's Business Strategy is developed to provide direction on how the organisation will achieve its Mission and Vision.

Powerlink has revised its Mission and Vision statements to better reflect the organisation's long-term purpose and where it needs to focus its efforts to be successful.

MISSION

Powerlink enriches lifestyles and powers economic growth through electricity transmission and associated solutions.

VISION

We are innovative and customer focused with a stronger business and reputation.

4 BUSINESS PERFORMANCE

4.1 Financial Targets

The Board of Powerlink will seek to achieve the following performance targets for 2016/17 (SCI Target).

	2016/17 TARGET	2015/16 TARGET
<u>PERFORMANCE TARGETS</u>		
EBIT	\$743.1 M	\$606.5 M
Net Profit After Tax (NPAT)	\$279.4 M	\$205.1 M
Capital Expenditure	\$179.6 M	\$221.4 M
Return on Assets (ROA) ¹	9.1%	7.4%
Net Debt / Fixed Assets Ratio	65.8%	65.9%
Net Debt / Regulated Assets (RAB) Ratio	75.2%	75.0%
Interest Cover Ratio (EBITDA)	3.1	2.9
CFO + Interest / Interest	> 2 times	> 2 times
CFO / Net Debt	> 7%	> 7%
Dividend Payout Ratio	157% (includes Special Dividends)	100%
Dividend Provided	\$439.4 M	\$205.1 M
<u>PERFORMANCE INDICATORS</u>		
Return on Equity (ROE)	17.2%	12.5%
Debt / Debt + Equity Ratio	76.6%	75.0%
Distribution Yield	21.6%	N/A
Distribution Cash Coverage	1.2 times	N/A

¹ – Achieves Powerlink's Regulatory WACC

4.2 Non-financial Targets

The Board of Powerlink undertakes to seek to achieve the following non-financial performance targets in 2016/17:

	2016/17 TARGET	2015/16 TARGET
<u>PERFORMANCE TARGETS</u>		
Cost Efficiency		
Total Network Maintenance Cost / Depreciated Asset Value	1.6%	1.6%
Total Controllable Operating Cost / Depreciated Asset Value	3.0% ¹	3.1% ¹
Environment	<u>OBJECTIVE:</u> To be compliant with relevant legislation. Any reportable instances that may occur will be reported. <u>TARGET:</u> To be materially compliant.	
Safety ²		
LTIFR (Lost Time Injury Frequency Rate)	2.5	2.5
TRIFR (Total Recordable Injury Frequency Rate)	9.5	N/A
Network Performance	<u>2016 Year</u>	<u>2015 Year</u>
<u>System Reliability</u>		
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 – Controllable operating costs includes AEMC levy and one-off costs (provisions for employee payments).

² – Powerlink only.

4.3 Assumptions

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

ASSUMPTIONS	2016/17 TARGET	2015/16 TARGET
Economic Assumptions		
CPI ¹	2.45%	1.3%
Asset Revaluation ¹	2.45%	2.5%
Income Tax Rate	30%	30%
Network Assumptions		
Network (Circuit kilometres)	15,435 kms	15,090 kms

¹ – Reported 12-month period from March to March.

4.4 Financials

4.4.1 Consolidated

Profit and Loss Statement

POWERLINK QUEENSLAND	2016/17 TARGET (\$ M)	2015/16 TARGET (\$ M)
<u>OPERATING REVENUE</u>		
Total Operating Revenue:	1,316.9	1,159.2
<u>OPERATING EXPENSES</u>		
Controllable Operating Expenses	238.6	228.7
Grid Support Costs	1.8	3.5
Depreciation	323.0	314.2
Other ¹	10.4	6.3
Total Operating Expenses:	573.8	552.7
Earnings Before Interest and Tax (EBIT)	743.1	606.5
Interest Expense	344.0	313.5
Income Tax Equivalent Expense	119.7	87.9
Net Profit After Tax (NPAT)	279.4	205.1
Dividends Provided for <i>(includes Special Dividend)</i>	439.4 ²	205.1

Notes:

¹ – Includes Cost of Disposal of Non-Current Assets & External Customer Services Expenses.

² – Includes Special Dividend of \$160 million.

Balance Sheet – at 30 June of Relevant Financial Year

POWERLINK QUEENSLAND	2016/17 TARGET (\$ M)	2015/16 TARGET (\$ M)
<u>CURRENT ASSETS</u>		
Cash	86.5	30.0
Receivables	107.0	139.3
Other	52.0	51.1
Total Current Assets:	245.5	220.4
<u>NON-CURRENT ASSETS</u>		
Investments	---	---
Property, Plant & Equipment	7,868.5	8,045.9
Other	18.3	16.6
Total Non-Current Assets:	7,886.8	8,062.5
TOTAL ASSETS:	8,132.3	8,282.9
<u>CURRENT LIABILITIES</u>		
Creditors	35.0	45.2
Other	308.9	203.8
Total Current Liabilities:	343.9	249.0
<u>NON-CURRENT LIABILITIES</u>		
Borrowings	5,265.2	4,198.4
Other	912.2	917.3
Total Non-Current Liabilities	6,177.4	5,115.7
TOTAL LIABILITIES:	6,521.3	5,364.7
NET ASSETS:	1,611.0	2,918.2
<u>SHAREHOLDERS' EQUITY</u>		
Share Capital	401.0	401.0
Reserves	1,210.0	1,234.4
Retained Earnings	Nil	1,282.8
TOTAL SHAREHOLDERS EQUITY:	1,611.0	2,918.2

Shareholder Equity Injections and Withdrawals ¹

POWERLINK QUEENSLAND	2016/17 TARGET (\$ M)	2015/16 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	2016/17 TARGET (\$ M)	2015/16 TARGET (\$ M)
Dividends Provided	439.4	205.1
Tax Equivalents Expense ²	119.7	87.9

² – As identified in Profit and Loss Statement.

Statement of Cash Flows

POWERLINK QUEENSLAND	2016/17 TARGET (\$ M)	2015/16 TARGET (\$ M)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Receipts in the course of Operations	1,293.1	1,298.8
Cash Payments in the course of Operations	(240.4)	(294.3)
Interest Received	1.0	3.1
Interest Paid	(344.0)	(313.5)
Tax Equivalent Payments	(123.0)	(86.2)
Net Cash Provided by Operating Activities:	586.7	607.9
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for Property, Plant and Equipment	(179.6)	(221.4)
Proceeds from Sale of Non-Current Assets	5.5	3.3
Other	---	---
Net Cash used in Investing Activities:	(174.1)	(218.1)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Borrowings	---	805.0
Dividends Paid	(369.8)	(1,278.5)
Other	---	---
Net Cash from Financing Activities:	(369.8)	(473.5)
Net Increase/(Decrease) in Cash Held	42.8	(83.7)
Cash @ Beginning of the Financial Year	43.7	113.7
Cash @ End of the Financial Year	86.5	30.0

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

Regulated revenue reflects the forecast of billings and collections. As such, the Regulated Revenue presented in the Income Statement does not match the AER's Maximum Allowed Revenue (MAR). Powerlink does not recognise an asset or liability for the under or over recovery for differences between actual collections and the MAR.

The AER Service Target Performance Incentive Scheme (STPIS) operates on a calendar year basis. The 2015 calendar year STPIS bonus of \$20.9 million is included in the Regulated Revenue collections for 2016/17.

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.

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 relevant to existing non-regulated network investments. There are no new non-regulated transmission network connection investments included in this SCI.

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 approval by the Powerlink Board. Powerlink undertakes to notify shareholding Ministers of all investments greater than \$20 million immediately following approval by the Powerlink Board.

Total capital works expenditure (capex) in 2016/17 is forecast to be \$179.6 million, excluding financing costs during construction. The regulated capex component is part of the five-year forecast for the current regulatory period (2012/13 to 2016/17), which is expected to deliver a reduction in regulated capital expenditure compared to the capital expenditure allowance in the 2012 AER revenue decision. This is due to a number of factors including changes in forecast electricity demand, review of risk levels associated with replacement of aged assets and Powerlink's prudent approach to avoid the prospect of over-investment.

Potential Non-Regulated Projects

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

Total Capital Expenditure

Description	Approved Total Cost	Estimated Expenditure 2016/17
Total shareholding Minister Approved	---	---
Total Board Approved	\$521.8 M	\$ 101.3 M
Total Other Projects ¹	---	\$ 78.3 M
<u>TOTAL CAPITAL EXPENDITURE:</u>		\$ 179.6 M

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

Project	Approved Total Cost	Estimated Expenditure 2016/17	Expected Completion Date
<u>SHAREHOLDING MINISTER APPROVED</u>			
Nil	---	---	---
<u>BOARD APPROVED</u>			
Braemar iPASS Secondary Systems Replacement	\$29.2 M	\$2.8 M	Summer 17/18
Moura Switchyard Replacement	\$24.5 M	\$4.4 M	Summer 17/18
Blackwall iPASS Secondary Systems Replacement	\$33.1 M	\$2.6 M	Summer 17/18
Mackay Substation Replacement	\$24.5 M	\$3.4 M	Summer 18/19
Ross Secondary Systems Replacement	\$27.0 M	\$2.6 M	Summer 17/18
Rocklea Secondary Systems Replacement	\$21.1 M	\$5.6 M	Summer 17/18
Nebo 275/132kV Transformer Replacement	\$24.8 M	\$3.1 M	Summer 17/18
Collinsville-Proserpine Transmission Line Refit	\$34.3 M	\$8.8 M	Summer 18/19
Nebo Primary Plant Replacement	\$22.5 M	\$1.4 M	Winter 2020
Calvale and Callide B Secondary Systems Replacement	\$21.8 M	\$5.9 M	Winter 2021
Substation Security Upgrade	\$40.0 M	\$20.3 M	Summer 17/18
Stanwell Secondary Systems Replacement	\$19.3 M	\$1.6 M	Summer 18/19
Nebo Secondary Systems Replacement	\$21.0 M	\$0.9 M	Winter 2022
Callide A/Calvale 132kV Reinvestment	\$21.4 M	\$0.7 M	Summer 18/19

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 2001*, 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 2016/17.

5.3 Capital Structure and Borrowings

There are no new borrowings forecast for 2016/17.

The overall debt will be managed to ensure that Powerlink maintains an investment grade credit rating.

5.4 Dividend Policy

In line with shareholding Ministers' expectations, Powerlink adopts a dividend policy of 100% dividend payout ratio and additional special dividends that target a gearing level for the regulated business that equates to a forecast closing Net Debt to RAB of approximately 75%.

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 business. The business's risk identification and management process is monitored by the Audit, Risk and Compliance Committee, which is a subcommittee of the Board, with risk management reports presented to the Board on a regular basis.

6 PERFORMANCE AGREEMENT

6.1 Directors' Statement and Agreement of Shareholding Ministers

This SCI for 2016/17 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 2016/17.

This SCI is consistent with Powerlink's 2016/17 to 2020/21 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 use all reasonable endeavours to achieve the targets proposed in the SCI for 2016/17.

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

Shareholding Ministers

.....
The Honourable Curtis Pitt MP
**Treasurer, Minister for Aboriginal and
Torres Strait Islander Partnerships, and
Minister for Sport**

.....
The Honourable Mark Bailey MP
**Minister for Main Roads, Road Safety
and Ports, and Minister for Energy,
Biofuels 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	$\frac{\text{Total Debt less Cash}}{\text{Total Debt plus Total Equity (end of year)}}$
Net Debt to Fixed Assets	$\frac{\text{Total Debt less Cash}}{\text{Total Closing Fixed Assets (including WIP)}}$
Net Debt to Regulated Assets	$\frac{\text{Total Debt less Cash}}{\text{Total Closing Regulated Fixed Assets (including WIP)}}$
Interest Cover (EBITDA)	EBITDA / Interest Expense
Cashflow from Operations (CFO)	CFO + Interest Paid
Interest Cover	Interest Paid
CFO to Net Debt	$\frac{\text{CFO}}{\text{Total Debt less Cash}}$
Dividends Provided	Dividend calculated using Dividend Payout Ratio (cashflow occurs in following year)
Dividend Payout Ratio	Dividend as % of Net Profit After Tax
Distribution Yield	$\frac{\text{Shareholder Distributions (Dividends Paid)}}{\text{Actual RAB – Net Debt}}$
Distribution Cash Coverage	$\frac{\text{Net Operating Cashflow – Repex}}{\text{Shareholder Distributions (Dividends Paid)}}$
Lost Time Injury Frequency Rate (LTIFR)	$\frac{\text{No. of Lost Time Injury Occurrences x 1,000,000}}{\text{No. of Hours Worked}}$



Total Recordable Injury Frequency Rate (TRIFR)	$\frac{\text{No. of Injury Occurrences} \times 1,000,000}{\text{No. of Hours Worked}}$
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

Powerlink, and the electricity sector in general, continue to be under intense scrutiny due to ongoing concern about electricity prices, requiring that Powerlink's business operations continue to be effective and efficient.

Powerlink's aim is to ensure that its business operations:

- are directed towards sustainably providing transmission services in line with customer expectations and in a manner that supports Queensland's economic prosperity;
- are competitive for non-regulated business opportunities; and
- assist in placing downward pressure on electricity prices by delivering efficient electricity transmission services.

Powerlink's priority continues to be on the delivery of its business strategy. Specific business strategy initiatives relating to leadership, the delivery of efficiency gains, and the building of 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 on Powerlink's operations, Powerlink strives to take a reasonable and appropriate consultative approach with staff and their representatives, to get their input, and to resolve all issues locally within the business. A constructive relationship with staff is inherent to Powerlink's employee relations approach.

Industrial Relations Framework:

Powerlink's aim in its employment and industrial relations approach is to have employment arrangements that support the delivery of the strategic business priorities and positively contribute to the business' requirement to be more efficient. These approaches are largely contained in Powerlink's two enterprise agreements:

- The *Powerlink Managers Enterprise Agreement 2014* covers approximately 7% of the workforce. It is aligned to the organisational architecture of Powerlink and recognises the important role of leadership in driving business outcomes. Its nominal expiry date is 21 January 2018.
- The *Working at Powerlink 2015 - Union Collective Agreement* covers approximately 88% of Powerlink's staff. It provides the majority of their terms and conditions of employment. Its nominal expiry date is 28 February 2018.

2. Significant and Emerging Issues

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

- Powerlink's 2015 "Future Resourcing Outlook" project (FRO) helped Powerlink to better align its workforce to current and future workload requirements. This project will finish in December 2016.
- Factors in the external environment such as tighter regulatory controls, increased stakeholder expectations, and falling consumer electricity demand continue to impact on the network and our business. These factors will require ongoing 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.
- In response, Powerlink's Revenue Proposal to the Australian Energy Regulator (AER) for the 2018–22 regulatory period includes forecast requirements to deliver reliable transmission services that will have impacts on the amount of work associated with the regulated network and associated workforce requirements.
- In 2015 a comprehensive review of Powerlink's indirect controllable costs was completed and 84 proposals for potential change were identified. The proposals relate to both non-labour and labour cost savings. Powerlink is working through these proposed changes and will consider and evaluate the implementation of those which align to its ongoing goals. In doing this, Powerlink will take into account both its requirement to maintain a reliable service, and also its decreasing workload.
- Non-regulated business opportunities for growth – Powerlink will need to ensure that it is competitive in order to win these opportunities. The growth of the non-regulated business will become increasingly important to Powerlink's workforce into the future but is expected to be modest given the outlook in the resources sector and the increased competition for the limited opportunities.
- Further adjustments of Powerlink's workforce levels are expected to be required as a result of reduced work on the regulated network due to the flat outlook for growth and limited non-regulated opportunities. On 4 July 2016, Powerlink, with the agreement of union representatives, commenced a general call for voluntary redundancies.
- The 'no forced redundancies' policy at Powerlink (part of the 2015 GOC wages policy) requires that Powerlink retain in employment individuals whose roles have been made redundant. Wherever possible, Powerlink strives to place these individuals into suitable alternative roles. However, when no suitable roles are available, these individuals are being placed in a 'Career Management Group' where their primary object is to obtain a new permanent position.
- The Career Management Group will continue to provide challenges for Powerlink both in terms of industrial relations scrutiny and the cost of maintaining these individuals in employment without any return to Powerlink.

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

- Continue to implement and embed further efficiencies gained through the ongoing process review and improvement. This includes considering and evaluating the implementation of changes proposed in the comprehensive review of indirect controllable costs conducted in 2015.
- Continue to implement the terms and conditions of Powerlink's enterprise agreements and ensure the delivery of business productivity to offset the cost of the wage increases payable under the agreements.
- Increase business productivity by driving changes to the Powerlink culture to be more constructive.
- Improve consultative relationship with unions in line with the State Government's "Union Encouragement Policy". Powerlink has already been implementing a significantly different approach to its relationship with unions by engaging with both employees and unions at an earlier stage of significant decision making in addition to complying with its consultation requirements at a later stage of the decision making process.

EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN

1. Employment Conditions

Enterprise Agreements

Conditions of employment for Powerlink employees are regulated largely by either:

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

The Working at Powerlink Agreement is Powerlink's primary enterprise agreement covering approximately 88% (856) of employees.

The key features of the Working at Powerlink Agreement include:

- A three year agreement operative until 28 February 2018;
- 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; and
- All other key terms and conditions of the existing Agreement were maintained.

The key features of the Powerlink Managers Agreement, which covers approximately 7% (67) of employees, include:

- A three year agreement operative until 21 January 2018;
- A base wage increase of 2.75% per annum (plus an administrative increase of 0.25% to align with GOC wages policy increase of 3%);
- 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;
- '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%;
- Optional individual employment agreements (Alternative Working Arrangements) based on a total employment cost (TEC) contract basis;

- 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; and
- 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.

The current Working at Powerlink Agreement was negotiated in line with the current 2015 GOC Wages Policy. As the Powerlink Managers Agreement was negotiated under a previous policy, employees covered by this agreement receive an additional 0.25% administrative pay increase and the benefit of the government's 'no forced redundancy' policy.

2. Workforce

Powerlink's resource planning process considers what workforce is required to deliver its programs of works, for the regulated program, the non-regulated program and the 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 includes work 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 a combination of permanent and fixed term employees, 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 2016	30 June 2017
Employment Category:		
Permanent (including Part-time)	819	746
Senior Executive	7	6
Apprentices (In House)	27	23
Trainees (In House)	29	25
Casual and Fixed Term Employees	35	20
Total Directly Employed Workforce:	917	820
Labour hire - Administration	1	2
Labour hire - Professional	4	2
Labour hire – Technical	--	1
Total Workforce (including labour hire):	922	825

¹ – Full Time Equivalent (FTE) means full time equivalent per annum. Powerlink applies FTE to employees (full time, part time and casual) and labour hire. Overtime does not count toward FTEs.

3. Redundancy Provisions

Powerlink's redundancy provisions focus on redeployment and retraining, but provide for the following in cases 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. This commitment will continue to challenge Powerlink to assist employees whose roles are redundant to find alternative permanent employment.

The Career Management Group (CMG), which began in 2015, accommodates employees whose roles are redundant but who have not taken a voluntary redundancy and who remain employed by Powerlink but without a role. The CMG assists these employees in finding alternative employment and provides them with job-seeking support.

The Powerlink Managers Agreement provides substantially similar redundancy benefits to the Working at Powerlink Agreement, and although 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), administratively this is not applied.

4. Remuneration Arrangements

The remuneration details for Powerlink's Chief Executive Officer and other Senior Executives applying on 1 January 2016 are:

CEO / Senior Executives	Base Salary ¹	Employer Superannuation Contributions	Total Fixed Remuneration	Performance Payment in 2015/16 ²
Merryn York, Chief Executive	630,552	63,048	693,600	66,690
Maurie Brennan, Chief Financial Officer	353,867	35,383	389,250	33,845
Julia Smith, Executive Manager People and Culture	277,412	27,738	305,150	17,605
Michelle Palmer, Executive Manager Stakeholder Relations and Corporate Services	236,411	23,639	260,050	19,910
Greg Rice Executive Manager Infrastructure Delivery and Technical Services	331,912	33,188	365,100	27,820
Chris Hazzard, Acting Executive Manager Operations & Field Services	246,048	24,602	270,650	3,945
Garry Mulherin, Executive Manager Investment and Planning	342,913	34,287	377,200	28,740

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.

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.

Changes to performance pay arrangements for enterprise agreement employees continue to be implemented by reducing the percentage of gainsharing payment available to employees, while at the same time improving the ability to differentiate reward for outstanding performance through individual performance pay.

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 Agreement; 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 – ER Team

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) in 2016 include four key focus areas which have been prioritised to provide ongoing improvement in health and safety. The focus areas include:

- Talk about safety – engaging everyone in safety
- Be a safety leader
- Keep one another safe
- Own the outcome - safety enabling systems

The strategic initiatives are designed to create a significant step change in Powerlink Safety Management capability towards an interdependent safety culture.

The Safe for Life Program goals delivered to date (and throughout 2015) include:

- the development of a safety management system which aligns to the Australian standard;
- a new WHS safety risk management standard which has been incorporated into divisional and corporate WHS risk registers;
- the development and implementation of a new safety event investigation process which provides a focus on learning rather than allocation of blame;
- revision of the rehabilitation and return to work standards (with training provided to managers to assist them in understanding their part in the process);
- completion of 'Energised Safety Leadership' training for managers and 'Be Safe' training for all employees; and
- the undertaking of a three year safety culture review.



Further work is programmed to continue the delivery of these initiatives including the implementation of a new safety management IT capability (PQ Switch) for managing business-wide health and safety. This new IT capability will reduce duplication in the handling of data collection. In addition, its analytical capability will substantially improve reporting functions.

Attachment 3: Sponsorship, Advertising, Corporate Entertainment and Donations

Sponsorships

Powerlink's sponsorship policy includes a framework 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 must 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 2015/16 (\$)	Budget 2016/17 (\$)	2016/17 – Quarter (\$)			
				Sept	Dec	Mar	Jun
<u>SPONSORSHIPS</u>							
Engineers Australia	EA Branch Program	5,000	5,000				5,000
Energy Users Assoc. of Aust.	Conference and Qld Forum	15,000	15,000			15,000	
Local Govt. Assoc. of Qld	State and Regional Conferences	20,000	20,000				20,000
Qld State Emergency Service	Statewide equipment sponsor	50,000	50,000			50,000	
Environmental sponsorship	Conference	11,000	10,000			10,000	
Planning Institute of Aust.	Conference and Awards	10,000	---				
Total over \$5,000		111,000	100,000	Nil	Nil	75,000	25,000
Other (total) below \$5,000		30,000	30,000	7,500	7,500	7,500	7,500
Total Sponsorship (1):		141,000	130,000	7,500	7,500	82,500	32,500
<u>DONATIONS</u>							
Total over \$5,000		10,000	10,000	---	10,000	---	---
Other (total) below \$5,000		---	---	---	---	---	---
Total Donations (2):		10,000	10,000	Nil	10,000	Nil	Nil
<u>ADVERTISING</u> 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 2015/16 (\$)	Budget 2016/17 (\$)	2016/17 – Quarter (\$)			
				Sept	Dec	Mar	Jun
<u>CORPORATE ENTERTAINMENT</u>							
Total over \$5,000		Nil	Nil	---	---	---	---
Other (total) below \$5,000		60,000	50,000	10,000	15,000	15,000	10,000
Total Corporate Entertainment (4):		60,000	50,000	10,000	15,000	15,000	10,000
<u>OTHER</u>							
Total over \$5,000		---	---	---	---	---	---
Other (total) below \$5,000		---	---	---	---	---	---
Total Other (5):		Nil	Nil	Nil	Nil	Nil	Nil
TOTAL (1)+(2)+(3)+(4)+(5)		211,000	190,000	17,500	32,500	97,500	42,500

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

Activity	Budget 2016/17 (\$)	2016/17 – Quarter (\$)			
		Sept	Dec	Mar	Jun
CORPORATE ENTERTAINMENT.					
Staff Functions	30,000	5,000	10,000	10,000	5,000
Business Development	20,000	5,000	5,000	5,000	5,000
Stakeholder and Community Engagement	---	---	---	---	---
TOTAL UNDER \$5,000:	50,000	10,000	15,000	15,000	10,000



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