Energy Queensland Limited

Statement of Corporate Intent 2021/22

Prepared by the Directors and Management of Energy Queensland Limited for Shareholding Ministers

The Honourable Cameron Dick MP
Treasurer and Minister for Investment

The Honourable Mick de Brenni MP
Minister for Energy, Renewables and Hydrogen and Minister for Public Works and Procurement

Performance Agreement

This Statement of Corporate Intent is presented in accordance with Chapter 3, Part 8 of the *Government Owned Corporations Act 1993* (GOC Act).

In accordance with Chapter 1, Part 3, section 7 of the GOC Act, the Statement of Corporate Intent represents a formal performance agreement between the Board of Energy Queensland Limited and its shareholding Ministers, with respect to the financial and non-financial performance targets specified for the financial year. The Statement of Corporate Intent represents agreement to the major activities, objectives, policies, investments and borrowings of Energy Queensland Limited for 2021/22.

This Statement of Corporate Intent is consistent with Energy Queensland Limited's 2021/22 to 2025/26 Corporate Plan, submitted to shareholding Ministers and agreed in accordance with Chapter 3, Part 7 of the GOC Act.

In signing this document, the Board of Energy Queensland Limited undertakes to achieve the targets proposed in the Statement of Corporate Intent for 2021/22.

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

This Statement of Corporate Intent is signed by the Chair on behalf of all the directors in accordance with a unanimous decision of the Board of Energy Queensland Limited.

The Honourable Cameron Dick MP
Treasurer and Minister for Investment

Date:

The Honourable Mick de Brenni MP
Minister for Energy, Renewables and Hydrogen and
Minister for Public Works and Procurement

Date:

20 May 2021

Philip Garling
Chairman Energy Queensland Limited

Date:

Key Performance Indicators

Table 1: Energy Queensland Limited's 2021/22 key financial and non-financial performance indicators

Key Result Area	Measure	*2020/21 Estimated*	2021/22 Plan
Safety and People	Significant Incident Frequency Rate (SIFR)	*1.2*	1.1
	Employee Engagement	*60%*	65%
Financial	Net Profit After Tax (NPAT) ($M)	*183.2*	165.6
	Standard Control Service Total Expenditure ($M)	1,915.8	1,896.3
Customer	Customer Satisfaction (CSAT)	*New*	69
Operations	Operational Delivery	*90%*	90%
	Service Target Performance Incentive Scheme (STPIS) – Energex ($M)	*19.4*	19.1
	STPIS – Ergon ($M)	*23.2*	18.9

Response to Shareholder Expectations

Energy Queensland Limited's (Energy Queensland) Statement of Corporate Intent (SCI) represents the agreement between Energy Queensland's Board of Directors and shareholding Ministers on performance objectives for 2021/22. It has been prepared in accordance with section 7 (2) of the GOC Act and represents the first year of the five-year outlook that is detailed in the associated Corporate Plan (CP) 2021/22 to 2025/26.

The increasing number of households and businesses investing in solar photovoltaic (PV) generation has led to rapidly declining minimum operational (grid) demand. This has created challenges in relation to significant reverse power flows across some parts of the distribution network as well as system security, stability and operational risks. There are three potential solutions which Energy Queensland is proposing in collaboration with the Queensland Government and Powerlink for a coordinated response to mitigate the minimum demand risk include encouraging more daytime energy consumption through tariff reform and changes to load control; install battery energy storage at scale across the transmission and distribution network, and curtailing solar export during system constraints associated with minimum demand.

To address the immediate and significant safety risks in the Ergon Energy Corporation Limited (Ergon Energy) Network and to meet community safety expectations, Energy Queensland plans a proposed increase in network replacement capital expenditure in excess of what has been provided by the Australian Energy Regulator (AER) to meet safety, bushfire risk and network requirements in regional Queensland, particularly in relation to pole and cross-arm replacements, replacement of aged copper conductor, and replacement of aged substation equipment.

Financial sustainability continues to be a key priority. To deliver profitability in line with the AER rate of return, we will need support to achieve the requisite level of efficiencies against current government policy settings while delivering cost savings through the program of work. Yurika Pty Ltd's (Yurika) profitability is improving and will continue to grow revenue to offset overhead costs. However, although Ergon Energy Queensland Pty Ltd's (Retail) cost to serve continues to improve, their profit outlook is contingent on the wholesale market which has recently suffered a steep decline in electricity wholesale prices due to increased use of renewables and lower fuel costs for generators.

Energy Queensland will focus on the following priorities in 2021/22 to respond to the emerging challenges of our operating environment:

- Asset Safety - prioritising the safety of our people, customers and communities in all our activities
- System Security - keeping the lights on and ensure a reliable supply to our customers
- Financial Sustainability - delivering value to improve our financial position.

Energy Queensland will continue to engage with Government in relation to expectations for the next Shareholder Mandate (SHM).

Key assumptions and risks

Key assumptions

The financial forecast for 2021/22 reflected in the SCI is predominantly driven by the network businesses' revenue outcomes from the final regulatory determination published by the AER in June 2020. These determinations materially reduced the revenue allowances for the network businesses across the 2020-25 period when compared with the previous regulatory period. The largest driver of change in Energy Queensland 's profitability from the 2015-20 regulatory control period compared to the 2020-25 period is the return on capital, which accounts for more than 50% of regulated revenue. The nominal WACC decreased from around 6.0% in the 2015-20 regulatory control period to 4.46% (in average) for the 2020–25 period. This accounts for in excess of $350 million reduction in regulated revenue per annum.

A comprehensive review of the Ergon Energy network capital investment plans has been undertaken, requiring an increase to forward estimates for the replacement of aging assets, reduce asset failure rates and address emerging network risks. Energy Queensland has engaged independent consultants, recognised experts in this field with previous experience of the regulatory environment, to ensure the prudency and efficiency of the proposed Ergon Energy 2020-2025 expenditure and in preparation of an ex post review by the AER. The Board has provided interim approval of the funding of this additional capital expenditure subject to the consideration of the findings from the independent consultant.

Optimisation of the network and non-network capital portfolios continues, with reprioritisation of the non-network expenditure program, which includes Information and Communication Technology (ICT), property and fleet portfolios, resulting in a reduced spend requirement of approximately $115 million compared with the 2020/21 estimated actual expenditure and prior plan submissions.

Our financial projections continue to include efficiency ambitions and ongoing reductions in both operating and indirect expenditure as committed previously to customers and shareholders. Energy Queensland's ability to achieve these committed reductions within a constrained policy environment remains challenging.

As part of the 2020 Federal Budget economic stimulus agenda, businesses with an annual turnover below $5 billion can deduct the cost of eligible depreciating assets acquired and installed between 6 October 2020 and 30 June 2022. Energy Queensland has identified in excess of $2 billion of capital expenditure eligible for instant asset write-off provisions which would negate the tax equivalent payments to the State Government of approximately $200 million. The change in tax law also enables Energy Queensland to claim refunds of tax paid in prior income years of approximately $600 million. These tax adjustments have not been included in the SCI as per advice from Queensland Treasury. The long-term impact of the instant asset write-off on total tax equivalents paid may be neutral and the application of this policy would have significant short-term impacts on the State Budget.

The financial forecasts included in the SCI are based on a set of economic and operational assumptions as shown below in Table 2.

Table 2: Key annual assumptions

Consolidated Group	2020/21 Estimated	2021/22 Plan
Average interest rate	3.86%	3.68%
General cost escalation factor[1]	0.69%	0.69%
Corporate tax rate	30%	30%
Dividend payout ratio[2]	100%	100%
Weighted Average Cost of Capital [3]	4.73%	4.57%

1. General cost escalation is typically applied to costs excluding labour and contractors
2. Dividends are calculated based on 100% of NPAT less non-cash items, including gifted assets, asset impairments and mark-to-market movements
3. WACC is estimated in accordance with AER rate of return guideline to determine regulated revenue

Key Current and Emerging Risks

The key current and emerging risks facing Energy Queensland for 2021/22 include:

System Security

Increased solar PV in Queensland is resulting in record minimum demand and network stability concerns that increase the possibility for blackouts in the coming years. To avoid system security issues, action is needed in Queensland to implement in parallel a mix of firming/peak generation, synchronous condensers in the transmission network, programs to encourage excess solar power to be stored by households and pumped hydro storage/generation. Network batteries are key to the strategy as they can store excess electricity generated from renewable sources during daylight hours for use during the evening peak demand. In February 2021, the Energy Queensland Board approved a trial to install five batteries across the Ergon Energy Network (locations at Toowoomba, Hervey Bay, Bundaberg, Yeppoon, and Townsville), at a total estimated cost of $40 million, to examine the potential for battery storage to manage the evolving minimum demand issues that are placing the security of the network at risk. The trial will be used to demonstrate the value of distribution connected batteries and influence regulatory reforms to remove barriers and firming up cash flows to provide investor confidence in a scaled program of distribution connected batteries in the future.

Community, Employee and Contractor Safety

Due to the nature of the distribution network assets, the safety of the community, employees and contractors continues to be a high priority. Energy Queensland manages systems and processes to ensure the community is educated around the hazards posed by electrical assets; assets are designed and installed to minimise community impact; and the integrity of electrical assets is maintained to avoid adverse impacts on the community. Energy Queensland also ensures that it prioritises meeting its legislative and due diligence obligations associated with the safety of employees and contractors and implements systems and processes to systematically identify and manage activities that may cause injury or illness to employees or contractors. Energy Queensland is planning to invest in capital works to mitigate a range of community and worker safety risks arising from the aged population of assets including overhead lines, poles, LV neutrals and substation equipment.

Delivery of ICT program

Energy Queensland’s digital transformation will see the introduction of new tools and processes to support the way our business will operate into the future. This transformation includes the implementation of a range of cloud-based, mobile-enabled tools and technology. The testing and deployment of the Digital Enabling Building Blocks (DEBBs) project will significantly impact business capacity and require a significant cultural paradigm shift.

Capital expenditure

Total capital expenditure

Table 3: Statement of Capital Expenditure

Total Capital Expenditure Consolidated Group ($M)*	*2020/21 Estimated*	2021/22 Plan
Augmentation (Augex)	105.6	188.2
Replacement (Repex)	716.4	691.8
Connections	138.4	143.8
Total Network Expenditure	**960.4**	**1,023.7**
Fleet	44.4	49.6
Property	66.0	39.1
Tools and Equipment	7.2	8.2
ICT	230.0	135.8
Total Non-Network Expenditure	**347.6**	**232.7**
Alternative Control Services	113.8	142.4
Unregulated	137.6	148.4
Total Other Capital Expenditure	**251.4**	**290.9**
Total Capital Expenditure	**1,559.5**	**1,547.3**

**Note: Numbers may not add up due to rounding.*

Large projects to be completed in 2021/22

The key projects for 2021/22 listed in the table below include all specific capital works projects with:

- A total escalated cost of $5 million or more; and
- A forecast commissioning date within the coming financial year - this is a date by which the works are complete, except for minor omissions or defects, which do not prevent the works from being reasonably capable of being used for their intended purpose.

This list excludes infrastructure or customer driven projects, as these projects are subject to changing customer requirements and other outside influences. Detailed information regarding these projects is available in Energex's and Ergon Energy's Distribution Annual Planning Report (DAPR), which covers a rolling five-year planning cycle.

Table 4: Large projects to be completed in 2021/22

Ergon/ Energex	Project Description	Commissioning Date	Approved ($M)
Ergon	Mackay to Maryborough P25 Digital Radio Installation - Parcel 2	Aug-21	9.9
Energex	Redcliffe Substation Upgrade	Sep-21	9.7
Ergon	Mackay to Maryborough P25 Digital Radio Installation - Parcel 1	Oct-21	9.6
Ergon	Mackay to Maryborough P25 Digital Radio Installation - Parcel 3	Nov-21	8.9
Energex	Broadbeach Bus Protection Upgrade	Nov-21	5.1
Ergon	Dysart Substation Refurbishment	Nov-21	14.6
Energex	Greenslopes Depot Development	Nov-21	31.8
Ergon	Rockhampton and Townsville Operational Technology Hosting Facility	Nov-21	26.2
Ergon	Charters Towers Substation Upgrade	Dec-21	5.4
Ergon	Egans Hill-Gracemere 66kV Line Construction	Mar-22	9.5
Ergon	Tennyson Street Substation Rebuild	Mar-22	28.0
Ergon	Yarranlea Substation Refurbishment	May-22	11.6
Energex	Richlands Substation Upgrade	May-22	6.6
Energex	Glenore Grove Transformer Replacement	Jun-22	7.7

Investment Thresholds

Energy Queensland acknowledges the requirements to notify appropriate parties and obtain approval for proposed CAPEX consistent with the Investment Guidelines for Government Owned Corporations (GOCs). An investment is defined as CAPEX where a return is expected over a period of time. The thresholds below will be reviewed annually to ensure appropriate approval and notification levels are maintained.

In 2021/22, Energy Queensland will:

Gain approval for:

- All regulated investments above $75 million, except for:
  - Regulated investments in the Western Zone, where approval will be sought for individual investments above $40 million; and
- All unregulated investments above $60 million, except for:
  - Retail and isolated systems investments, where approval will be sought for investments above $10 million.

Provide notification of:

- All regulated investments above $20 million; and
- All unregulated investments above $20 million, except for:
  - Unregulated investment which is outside of Queensland or involves investment in new markets that Energy Queensland has not entered before, where notification will be provided for investments above $10 million.

Queensland Procurement Policy (QPP)

As a Government Owned Corporation, Energy Queensland conforms to the QPP and is focused on supporting regional employment and the economic growth of Queensland. Energy Queensland has incorporated the principles, targets, and commitments of the QPP into its procurement processes, and works in partnership with local communities to develop industry capability and capacity to secure broader economic and societal benefits. Energy Queensland’s alignment with the QPP is regarded as a competitive advantage, particularly for its energy services business Yurika, as many of our commercial partners recognise the important economic, environmental, and social benefits of the policy especially in support of Queensland’s current recovery from the impacts of COVID-19.

Capital Structure and Dividend policies

The Energy Queensland Board targets a long-term capital structure of 70% debt to the Standard Control Services (SCS) Regulatory Asset Base (RAB). Energy Queensland’s dividend policy is to recommend and pay a dividend amount equivalent to 100% (or the percentage approved by shareholding Ministers, if different) of the cash component of Energy Queensland’s consolidated profit. The Board adopts such a policy based on its shareholders agreeing to provide the necessary funding under the State Borrowing Program for projects which have received Board and shareholding Ministers’ approval, for the maintenance of Energy Queensland’s approved capital structure and/or for ensuring the operational viability of Energy Queensland. Energy Queensland is committed to maintaining a stand-alone credit rating of at least BBB.

Community Service Obligation

Energy Queensland is currently working with the Department of Energy and Public Works (DEPW) and Queensland Treasury on the formulation of a CSO Deed for 2021/22. CSO contributions assumed for this submission reflect Energy Queensland's best estimate based on the draft QCA determination and network and customer load profiles.

Table 5: Community service obligation (CSO) forecasts[1]

Consolidated Group ($M)	*2020/21 Estimated*	2021/22 Plan
NEM CSO[2]	348.9	415.8
ACS Metering CSO	15.6	15.1
Mt Isa CSO	23.5	28.4
Isolated CSO	66.0	65.3
CSO Over Recovery[3]	1.1	0.0
Total Energy Queensland CSO[3]	**455.1**	**524.6**

1. The net flows are prepared on a cash basis. Variances compared to Statement of Profit and Loss and CSO forecasts are due to the timing difference
2. National Electricity Market (NEM) CSO also includes ACS Streetlighting CSO and Retail handbacks
3. The CSO over-recovery represents the difference between the calculated CSO and fixed deed CSO amounts. The CSO total is less the drought relief scheme which is now subject to a separate deed

Financial statements

Statement of Profit and Loss

Table 6: Statement of Profit and Loss

Consolidated Group ($M)*	*2020/21 Estimated*	2021/22 Plan
Distribution Use of System (DUoS) Revenue	2,594.6	2,568.5
Transmission Use of System (TUoS) Revenue	582.8	625.5
Retail Revenue (excluding network charges)	593.0	417.6
Other SCS Revenue	10.9	11.1
ACS Revenue	377.1	447.3
Unregulated Revenue	240.4	251.0
Interest Received	1.2	1.0
Other Revenue	0.0	0.0
Total Operating Revenue	**4,399.9**	**4,322.0**
TUoS Expenditure	585.4	616.1
Energy Purchases	680.5	593.3
Solar PV Feed In Tariff	282.0	258.1
CSO Expense offset	(455.1)	(524.6)
SCS Program of Work	578.9	573.2
ACS Program of Work (including unfunded)	173.4	213.9
Unregulated Expenditure	207.2	230.2
Other Direct Expenditure	93.5	71.7
Total Direct Operating Expenditure	**2,145.7**	**2,031.8**
Indirect Expenditure (excl Restructure)	689.7	763.6
Corporate Restructuring Costs	21.2	13.1
Depreciation & Amortisation	1,013.1	1,057.0
Overhead Allocation	(420.1)	(458.0)
Realised Earnings Before Interest & Tax	**950.3**	**914.6**
Mark to Market (MTM) Loss/(Gain)	0.0	0.0
Earnings Before Interest & Tax (EBIT)	**950.3**	**914.6**
Borrowing Costs	686.0	678.0
Income Tax Expense	81.0	71.0
Net Profit After Tax (NPAT)	**183.2**	**165.6**

**Note: Numbers may not add up due to rounding.*

Statement of Financial Position

Table 7: Statement of Financial Position

Consolidated Group ($M)*	*2020/21 Estimated*	2021/22 Plan
Cash Assets	20.1	8.0
Current Receivables	582.9	672.4
Inventories	186.6	191.1
Current Assets Held for Sale	0.0	0.0
Financial Assets	2.5	2.5
Other Current Assets	31.9	49.1
TOTAL CURRENT ASSETS	**824.1**	**923.0**
Non-Current Receivables	0.5	0.0
Property, Plant and Equipment	25,318.0	26,268.3
Intangible Assets	658.7	708.4
Other Non-Current Assets	122.4	120.5
TOTAL NON-CURRENT ASSETS	**26,099.7**	**27,097.2**
TOTAL ASSETS	**26,923.8**	**28,020.3**
Current Payables	587.7	560.2
Current Interest-Bearing Liabilities	13.1	13.1
Current Provisions	323.4	380.4
Current Financial Liabilities	233.0	233.0
Other Current Liabilities	94.6	115.1
TOTAL CURRENT LIABILITIES	**1,251.8**	**1,301.9**
Non-Current Interest-Bearing Liabilities	18,170.5	18,643.9
Net Deferred Tax Liabilities	3,408.0	3,527.9
Non-Current Provisions	24.1	24.7
Other Non-Current Liabilities	289.3	261.4
TOTAL NON-CURRENT LIABILITIES	**21,892.0**	**22,457.9**
TOTAL LIABILITIES	**23,143.8**	**23,759.8**
NET ASSETS	**3,780.0**	**4,260.5**
Contributed Equity	1,009.7	1,009.7
Reserves	2,568.0	2,977.8
Retained Earnings	202.3	273.0
TOTAL SHAREHOLDER'S EQUITY	**3,780.0**	**4,260.5**

**Note: Numbers may not add up due to rounding.*

Statement of Cash Flows

Table 8: Statement of Cash Flows

Consolidated Group ($M)*	*2020/21 Estimated*	2021/22 Plan
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	4,317.7	4,099.8
Payments to Suppliers and Employees	(2,836.3)	(2,780.1)
Community Service Obligations	479.6	505.6
Borrowing Costs	(699.8)	(675.4)
Income Tax Equivalent Received / (Paid)	(188.9)	(72.7)
NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES	**1,072.3**	**1,077.2**
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdraws / (advances) to QTC Investment	9.4	(0.0)
Payments for property, plant and equipment	(1,454.3)	(1,412.0)
Proceeds from sale of property, plant and equipment	17.8	21.1
Interest received	1.2	1.0
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	**(1,425.9)**	**(1,389.9)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds / (Repayment) from Borrowings	827.2	473.4
Payment of Lease Liabilities	(31.3)	(28.0)
Net Repayable Deposits	0.2	0.2
Dividends Paid	(443.4)	(145.0)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	**352.7**	**300.6**
Cash at the Beginning of the Financial Period	21.0	20.1
Net Increase/ (Decrease) in Cash Held	(0.9)	(12.1)
CASH AT THE END OF THE FINANCIAL PERIOD	**20.1**	**8.0**

**Note: Numbers may not add up due to rounding.*

Statement of Compliance

Energy Queensland, including its subsidiaries, will comply with all relevant policies and guidelines as issued by the shareholders and Government, and formal directions as received from time to time.

Attachments

Attachment 1	Sponsorship, advertising, corporate entertainment, donations and other activities
Attachment 2	Employment and Industrial Relations (E&IR) Plan
Attachment 3	Weighted average cost of capital (WACC) calculations
Attachment 4	Corporate measures definition table

Attachment 1 - Sponsorship, advertising, corporate entertainment, donations and other activities

Summary of Advertising, Community Support, Corporate Entertainment, Donations and Other Related Activities

Activity	2021/22 Plan
Advertising (And Other Marketing Channels)	4,651,000
Community Investment Partnerships	1,424,500
Corporate Entertainment	75,000
Other Related Activities	157,000
Total	**6,307,500**

Advertising

Activity	2021/22 Plan
Advertising over $5,000	
Community and High-Risk Safety Campaigns	2,750,000
Other Marketing Activities[1]	618,000
Product and Services Marketing - Retail	572,500
General Customer Engagement – Retail	500,000
Leveraging the Community Partnership Program - Retail	210,500
Total Advertising	**4,651,000**

1. Other Marketing Activities includes the following advertising activities not reported under safety campaigns – Yurika business ($363k) and Energex Residential Demand Mgt ($210k) and other marketing activities ($45k)

Corporate and Community Support

Activity	2021/22 Plan
Major & Multi-market Sponsorships over $5,000	
Community Fund[2]	100,000
Queensland Museum	-
Queensland State Emergency Services	150,000
University Partnerships - QUT, UQ, API	100,000
Queensland Rural Fire Service	75,000
Queensland Ballet	-
Queensland Theatre Company	50,000
RFDS Local Heroes Award	39,500
Local Government - LGAQ/LGMA	35,000
Career Trackers	19,500
Carnival of Flowers	31,500
JUTE Theatre	15,000
Lord Mayor Business Awards	-
Ronald McDonald House	10,500
QUT Business Leaders Forum	-
Unallocated Funds[2]	628,500
Local Area Sponsorships under $5,000	
Local Community Support $10,000 per Area	170,000
Total Community Investment Partnerships	**1,424,500**

2. Energy Queensland continues to review the organisations that are sponsored to best deliver shared value

Corporate Entertainment

Activity	2021/22 Plan
Ignite Awards	6,000
Other Entertainment below $5k	69,000
Total Corporate Entertainment	**75,000**

Other related activities

Activity	2021/22 Plan
Other Related Activities - Memberships over $5,000	
Energy Charter	50,000
Thriving Communities Partnership	25,000
Townsville Enterprise	25,000
Capricorn Enterprise	22,000
City Smart[3]	-
Mt Isa to Townsville Economic Development Zone Inc (MITEZ)	8,500
Toowoomba and Surat Basin Enterprise	5,000
Committee for Economic Development of Australia (CEDA)	8,000
Unallocated Funds	13,500
Total Other Related Activities	**157,000**

3. City Smart membership was previously budgeted for but not captured as a community-related activity.

Attachment 2 – Employment and Industrial Relations Plan

Our vision at Energy Queensland is to energise Queensland communities and our 2020/2021 Business Plan details the specific initiatives and outcomes towards achieving our vision. This includes the following key priorities of the business:

1. We will improve employee engagement and safety
2. We will deliver value and reliable supply for our customers
3. We will increase customer and community trust
4. We will reduce costs and increase productivity
5. We will make it easier to do work supported by new technology
6. We will pursue profitable growth opportunities

We believe that providing a great employee experience in the organisation translates into positives for our customers. The way we work and how we develop our people ensures that they are building the skills and capabilities needed to strive and thrive in roles that matter to deliver great outcomes for our customers and communities.

We're aligning our people around a shared vision, strengthening our culture and focusing on communities in which we operate. Energy Queensland has established three core strategic objectives to support the transformation of the network and services to meet the future energy needs of our customers. These objectives are:

- **The safety of our people, customers and communities is our first priority**. Safety and network asset integrity remain at the forefront of our activities. Our networks are extensive with 1.7 million poles, many of them over 50 years old. Due to this our asset failure rates are too high, and we've already increased the rate of replacement and repair of our assets.
- **Keeping the lights on**. Our role is to ensure electricity can be reliably supplied to our customers. With the increase in renewable energy resources (particularly rooftop solar generation) we're seeing minimum loads impact the performance of our network, with the past year seeing a 31% drop in minimum demand. This presents significant risks and requires a concerted effort to find sustainable solutions.
- **Financial sustainability**. We need to do all we can to reduce indirect costs and deliver value for our business to improve our financial position. We will also proactively pursue opportunities to generate revenue and grow our business, particularly in Retail and Yurika.

Energy Queensland has a diverse portfolio and we are working to grow opportunities in the unregulated areas and skill our workforce for the future. We will continually look at ways of making the business more efficient while ensuring we provide sustainable, reliable and affordable energy solutions for our customers and communities.

Our people vision provides direction on how we will adapt and evolve to match the pace of our energy world, with and through our people; creating the workforce and culture needed to deliver success for our communities, customers and our business.

Safety and the well-being of our people, customer and communities is paramount and demonstrated through our behaviours and outcomes. Our people are at the heart of Energy Queensland, their experience at work makes it easy for them to strive, thrive and deliver for our customers and communities.

Our people are right-skilled to be ready for the evolving nature of work in a digital world. We leverage new technology and information to empower our people and our customers, and to be at the forefront in the energy market.

Our leaders connect and inspire our people to deliver. Our leaders create connection to the purpose of Energy Queensland for our people, inspiring others through their words and actions. We connect and collaborate to innovate, embracing the diversity of our people, customers and communities.

Collaboration is at the heart of how we engage with our people and deliver. We are agile and able to quickly adapt to the changing needs of customer.

2020/21 Remuneration for CEO and Senior Executives

The remuneration provided in the table below reflects CEO and Senior Executives at 1 July 2020.

CEO / Senior Executives	Base salary	Employer superannuation contributions[1]	Total remuneration (excluding performance pay)	Performance payment[2]	Total remuneration
Rod Duke[3] Chief Executive Officer	$888,306	$21,694	$910,000	$0	$910,000
Peter Scott[4] Executive General Manager Finance	$539,908	$21,694	$561,602	$0	$561,602
Paul Jordon Executive General Manager Operations	$491,623	$49,163	$540,786	$0	$540,786
Belinda Watton Executive General Manager Services	$461,261	$21,694	$482,955	$0	$482,955
Peter Price Executive General Manager Engineering	$486,874	$48,688	$535,562	$0	$535,562
Marianne Vosloo[5] Executive General Manager Digital	$378,306	$21,694	$400,000	$0	$400,000
Ayesha Razzaq[6] Executive General Manager Retail	$382,114	$21,694	$403,808	$0	$403,808
Carly Irving[7] Executive General Manager Yurika	$382,114	$21,694	$403,808	$0	$403,808
Michael Dart Executive General Manager Customer	$342,350	$21,694	$364,044	$0	$364,044

[1] Peter Price and Paul Jordon are defined benefit superannuation members.

[2] No performance payments were paid for the period 2019 – 2020.

[3] Rod Duke commenced employment with Energy Queensland on 1 April 2020.

[4] Peter Scott ceased as acting Chief Executive Officer on 31 March 2020. Mr Scott received higher duties Total Remuneration (excluding performance pay) of $771,742 while acting from 1 July 2019 to 31 March 2020.

[5] Marianne Vosloo commenced employment with Energy Queensland on 15 June 2020.

[6] Ayesha Razzaq was acting Interim Executive General Manager Retail from 23 March 2020. Ms Razzaq received higher duties Total Remuneration (excluding performance pay) of $403,808 before being permanently appointed at the same rate from 17 December 2020. Cheryl Hopkins ceased employment effective 17 April 2020.

[7] Carly Irving was acting Interim Executive General Manager Yurika from 27 February 2020. Ms Irving received higher duties Total Remuneration (excluding performance pay) of $403,808 before being permanently appointed at the same rate from 17 December 2020. Charles Rattray ceased employment effective 20 March 2020.

Employment Conditions

As a GOC covered by federal industrial relations legislation, Energy Queensland will continue to meet its obligations consistent with the guidelines provided by the Queensland Government and under the *Fair Work Act 2009* (Cth).

The majority of employees (with the exception of some employees on contract arrangements) are employed under the following enterprise agreements:

- Energy Queensland Union Collective Agreement 2020; and
- Energy Queensland Retail Union Collective Agreement 2020.

Future enterprise bargaining with industry unions will be consistent with the Government Owned Corporations Wages Policy prevailing at the time. Industry unions include:

- The Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia – Electrical Division (ETU);
- Australian Municipal, Administrative, Clerical and Services Union (The Services Union);
- The Association of Professional Engineers, Scientists and Managers, Australia (Professionals Australia); and
- Automotive, Metals, Engineering, Printing and Kindred Industries Union of Employees (AMWU).

Types of Employment

At 31 December 2020, Energy Queensland's full-time equivalent numbers (FTE) in each Employment Category are listed below:

Employment Category	Number of Employees
Permanent Employees	6,828.4
Fixed Term Employees[8]	172.6
Senior Executive Contract	9.0
Apprentices (In House)	399.0
Trainees (In House)	0.0
Casual Employees	28.0
Total Directly Employed Workforce	**7,437.0**
Total Workforce	**7,437.0**

8. Includes all fixed-term employees and Vacation Students.

As at 31 December 2020, Energy Queensland FTE employees were employed under the following industrial instruments and contractual arrangements:

Business	Type	Number of Employees
Enterprise Agreements		
Energy Queensland	• Energy Queensland Union Collective Agreement 2020	6,878.1
	• Energy Queensland Retail Union Collective Agreement 2020	344.4
	Total Enterprise Agreements	**7,222.5**
Contractual Arrangements*		
Energy Queensland	• Total Fixed Remuneration and Total Employment Cost	214.5
	Total Contractual Arrangements	**214.5**
	Total Number of Employees	**7,437.0**

*Includes contracts for employees outside the coverage and application of the respective Enterprise Agreements only

Enterprise Agreements

The Energy Queensland Union Collective Agreement 2020 (EQ UCA 2020) and the Energy Queensland Retail Union Collective Agreement 2020 (EQ RUCA 2020) were operative from 10 November 2020 and will operate until 29 February 2024, however they will continue in force after their nominal expiry date until such time as they are replaced or terminated by law.

Key features of these Enterprise Agreements include:

- Employment Security provisions (i.e. no forced retrenchments);
- 3% pay increases on 1 March 2022; 1 September 2022; and 1 March 2023 (aligned to the wage deferral principles from the addendum to the GOC Wages and IR Policy 2015);
- Applicable allowances indexed by annual wage increase each year;
- Employee and union consultation provisions;
- Union Delegate Rights and Responsibilities clauses; and
- Provisions relating to Use of Contractors (for core electrical work in the EQ UCA 2020).

Redundancy Provisions

The following redundancy and retrenchment provisions are common to the Enterprise Agreements:

- ‘No forced retrenchment’ for employees provided they do not unreasonably refuse redeployment to suitable alternative employment within a 50-kilometre radius of their original location;
- Salary maintenance at the employee’s base rate of pay while they remain in their redeployed position;
- Commitment to take all reasonable steps to determine what suitable alternative employment exists within the business;
- An ex-gratia retrenchment payment of three weeks per year of service, together with a proportionate amount for an incomplete year of service. The minimum and maximum retrenchment payment will be four weeks and 75 weeks respectively;
- Annual Leave: Payment for annual leave includes an employee’s accumulated balance as well as the pro-rata balance. Pro-rata annual leave is paid to the date of termination;

- Long Service Leave: A long service leave payment of 1.3 weeks for each completed year of service will be made; and
- Employees may also be eligible for an Early Separation Incentive Payment (ESIP) of 13 weeks' pay where applicable. Approval of ESIP is at the discretion of Energy Queensland.

OTHER EMPLOYMENT CONDITIONS

Above Enterprise Agreement employees

Above agreement employees are employed under a common law contract arrangement (Individual Contract Agreement) that is outside the coverage of an Enterprise Agreement. These contract arrangements have the ability to receive a maximum performance payment of 15% of salary. Performance is assessed relative to pre-determined objectives using a balanced scorecard system, with measures that are directly or indirectly linked to Energy Queensland's SCI and achievement of business and stretch targets.

Superannuation

Energy Queensland makes superannuation contributions on behalf of employees to the default Superannuation Fund operated by Energy Super, other than those employed under an Individual Contract Agreement (ICA) who may elect choice (this includes previous Enterprise Agreement legacy arrangements that may have previously elected choice). Energy Queensland subsidiaries contribute the Superannuation Guarantee (SG) of 9.5% of the employee's ordinary time earnings for those who are members of the Defined Contribution section of Energy Super and all other funds of choice.

Energy Queensland subsidiaries also offer an increase of employer superannuation contribution to 10.5% if an EBA employee elects to make a minimum voluntary contribution of 5% from their salary. The SG rate is currently legislated to increase to 10% on 1 July 2021 and then increase by 0.5% each year until it reaches 12% on 1 July 2025.

The Defined Benefit funds are now closed to new employees across Energy Queensland and its subsidiaries (i.e. all new employees join the Defined Contribution part of the Fund).

At 31 December 2020, the number of people in each Superannuation Fund is as follows:

Type	Number of Employees
Energy Super Defined Contribution Fund	6,305
Energy Super Defined Benefit Fund	1,014
Other – own choice of fund	229
Total	**7,548**

Use of Contractors

Energy Queensland and its subsidiaries utilise external resources to support its permanent labour force in the completion of core work. The use of contractors is subject to the following guidelines as specified within the various applicable enterprise agreements for Energy Queensland subsidiary businesses:

- the work volume is beyond the capacity of the resources or staff;
- the type of work or specialisation required is beyond the capacity of the resources or staff;
- it is in the public interest to undertake such work. Public interest includes issues of cost effectiveness;
- the security and tenure of employment of additional staff required to meet work peaks cannot be guaranteed;
- Energy Queensland and its subsidiaries do not intend to utilise contractors to reduce its commitment to training of permanent employees, or merely to avoid increases in the permanent workforce;
- the use of contractors is not to be exercised to avoid training for existing staff or employing new staff to cater for emerging areas of work. “Emerging areas of work” does not include one off works or temporary work peaks; and
- consultation is undertaken with relevant unions in accordance with the requirements of the enterprise agreements.

Energy Queensland and its subsidiaries have contractual processes in place to ensure compliance with licensing requirements, qualifications requirement in accordance with Government specifications and the contract tendering and award process complies with the *Competition and Consumer Act 2010* (Cth). Auditing processes are undertaken where required.

People and Culture

The Energy Queensland People Strategy articulates the workforce priorities and culture required to deliver on Energy Queensland’s vision to ‘energise Queensland communities. The People Strategy is focussed on 6 key business priorities: delivering value and reliable supply for our customers, increasing customer and community trust, reducing cost and increasing productivity, improving employee engagement and safety, making it easier to do work supported by technology and pursuing profitable growth opportunities. The initiatives in each of these areas will help to create a ‘match fit’ workforce and an organisational culture where people are at the heart of everything we do. From 2021 onwards, the implementation of the People Strategy will continue to accelerate. The following initiatives are planned or underway:

- Prioritise implementation of the non-network asset utilisation strategy;
- Deliver on financial and operational targets to achieve sustainable business efficiencies;
- Improve the effectiveness and efficiency to deliver outstanding client experiences at benchmark cost;
- Improve and sustain employee engagement;
- Mature our people centred culture;
- Complete final set of SKILLED Leader workshops and continue learning groups;
- Continued coordinated delivery of our Health, Safety and Environment (HSE) strategy;
- Successfully enable organisational digital transformation and efficiency, in alignment with DEBBs program of delivery;
- Enable workforce efficiencies by outworking/leveraging digital technologies; and
- Develop the EQL Strategic Workforce Plan.

Workplace Health and Safety

There is no greater priority than safety and it remains our key value. We put the safety and well-being of our people and communities first.

A key focus since early 2020 has been on adapting the way we work to keep our people, customers and communities safe through the COVID-19 pandemic. The comprehensive whole-of-business response included detailed disease response protocols, business continuity and operational plans and enhanced consultative mechanisms.

We were able to rapidly facilitate remote working arrangements in line with Government direction. Workplaces have been modified to enable physical distancing and had increased cleaning and disinfection regimes. The field workforce was equipped with adapted work practices, additional resources and protective equipment to keep them safe. Vulnerable workers have been supported with alternative working arrangements or special leave where appropriate. Our strong focus on employee support and mental health continued throughout the pandemic response with EAP, the Mental Health Advocates, Mates-in-Energy and dedicated ‘Leading through COVID-19’ resources covering domestic and family violence, alcohol and substance abuse and self-care.

Under the national strategy, Energy Queensland employees will be considered in Phase 2A (other critical and high-risk workers) of the Government’s prioritised plan for COVID-19 vaccination roll-out. Preparations are underway to support COVID-19 vaccination programs and communicate to the workforce as Government makes information available. Energy Queensland continues to be well placed to scale-up any of these measures as required throughout the pandemic.

Energy Queensland’s focus on Health, Safety and Environment activities through 2018 - 2020 has also been on alignment, decluttering and optimisation of HSE processes, rules and documentation, as well as the introduction of new programs such as Safety is Defence, Mates in Energy and Learning Teams to improve health, safety and environment outcomes. The new 2021-2023 HSE Strategy looks at consolidating and embedding the work done to date, as well as an increased focus on asset safety, implementation of technology (In-Vehicle Asset Management System (IVAMS), Asset & Works Management (AWM), Unified Distribution Management System (UDMS) etc) and balancing our learning with an increase in assurance activities.

The 2023 HSE Strategy covers the five focus areas Energy Queensland is working towards becoming a High Reliability Organisation (HRO) that sustains safe and reliable performance despite operating in a high risk and complex environment, with an additional 6th area included to recognised Environment Sustainability and Cultural Heritage.

To achieve this action Energy Queensland will focus on:

People & Wellbeing:

- Expand focus not only on the "worker", but also the "work" and the "workplace“. Increased integration of physical and mental wellbeing. Tailor efforts per Division and higher risk areas.

Safety is Defence:

- Safety is Defence is the way we do things. Integrate language within all EQL operating groups and HSE activities. Focus on front line leadership.

Sensitivity to Operations:

- Continued simplification of processes to make it as easy for the front line to do their work safely and efficiently. Leverage digital platforms/mobile devices to simplify work.

Deference to Expertise:

- Focussed improvements in areas of high hazard areas to the business with the support of technology.

Continuous Learning:

- Shift focus from reactive learning to proactive learning, leveraging from bank of earned trust.

Environment Sustainability and Cultural Heritage:

- Build on profile in targeted areas aligned with new Environment Sustainability and Cultural Heritage Policy

Consultation

The Energy Queensland E&IR Plan is developed in accordance with the terms of section 149 of the GOC Act 1993, in that consultation has occurred with:

- Industry Unions;
- Shareholder & Structural Policy Division, Queensland Treasury;
- Office of Industrial Relations; and
- Department of Premier and Cabinet.

Attachment 3 - Weighted average cost of capital calculations

Energy Queensland's WACC calculations are based on the Government Owned Corporations Cost of Capital Principles (2006). Energy Queensland will apply a separate WACC calculated for each key business activity with different risk profiles. The WACC method establishes rates that are applied to nominal cash flows and are used for project evaluation purposes.

The WACC for the electricity network businesses relates to investments under the national electricity regulation framework and is outlined in the WACC calculations below.

WACC Calculations	2020/21 Approved WACC[1]	2021/22 Final WACC[2]
Vanilla WACC (Nominal)	**4.73%**	**4.57%**
Return on Debt (Kd) (Nominal Pre-tax)	4.76%	4.49%
Return on Equity (Post-tax Nominal)	4.69%	4.69%
- Risk Free Rate	1.03%	1.03%
- Market Risk Premium	6.10%	6.10%
- Equity Beta	60%	60%
- Gamma	58.50%	58.50%
Return on Equity (Ke) (Post-tax Nominal)	**4.69%**	**4.69%**
Effective Tax Rate (T)	**30%**	**30%**
Benchmark Capital Structure		
- Proportion of Equity Funding	40%	40%
- Proportion of Debt Funding	60%	60%

1. WACC is based on the Energex and Ergon Energy Pricing Proposals approved by the AER.
2. WACC reflects the return on equity as approved in the AER Final Determination dated 5th June 2020 for 2020-21.

Capital asset pricing model

The Capital Asset Pricing Model is used to calculate the cost of equity as follows:

$Ke = Rf + \beta e \ x \ MRP$

Where: Ke = Required rate of return on equity

Rf = Required rate of return on a risk-free investment

MRP = Market risk premium

βe = Equity beta (correlation between the asset's risk and overall market risk)

Attachment 4 - Corporate measures definition table

Financial Measure	Definition
Net Profit After Tax (NPAT)	Provides a measure of Energy Queensland's profitability after debt servicing costs and income tax.
Standard Control Service Total Expenditure (SCS Totex)	Total expenditure relating to standard control services.
Non-Financial Measure	**Definition**
Significant Incident Frequency Rate (SIFR)	Significant Incident Frequency Rate (SIFR) captures: • events that have an actual or potentially fatal outcome for employees/contractors working for EQL • work-related Dangerous Electrical Events (DEEs) or Serious Electrical Incidents (SEIs) which have the actual or potential outcome of a fatality to employees/contractors working for EQL, or members of the public The KPI measure the rate of significant incidents per million hours worked in the reporting period.
Customer Satisfaction (CSAT)	Provides a measure of customer sentiment and satisfaction with the services provided by Energy Queensland by brand (Energex, Ergon Energy Network; Ergon Energy Retail and Yurika) benchmarked against other companies across a range of sectors. The metric tracks the value being delivered to customers against their needs and expectations.
Employee Engagement	Measures employee engagement to the business.
Operational Delivery	The delivery measure provides a more holistic and comprehensive view of the Energex and Ergon Program of Work, with the first-time inclusion of a work unit rate sub-measure to track productivity. It is comprised of Work Unit Rate; Projects on Time; Projects on Budget; and Program Delivery.
STPIS Energex / STPIS Ergon	The Service Target Performance Incentive Scheme (STPIS) is a reliability incentive scheme that rewards or penalises Energex and Ergon Energy based on unplanned outages. There are four elements to the STPIS reward/penalty calculation including a reliability component (CBD, UR, SR, LR SAIDI/SAIFI), a customer service component (telephone answering), incentive rates (for each reliability and customer service component), and forecast revenue cap. The calculation of the measure is based on: 1. Calculate the s-factor (%) for each reliability and customer service parameters (YTD/EoY Target – YTD/Predicted Performance) * Incentive Rate / 100 2. Sum the s-factors for all parameters 3. Sum s-factors * Forecast revenue cap 4. Reward / Penalty