

Energy Queensland Limited

Statement of Corporate Intent

2018/2019

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

The Honourable Jacklyn (Jackie) Trad MP
Deputy Premier, Treasurer and Minister for Aboriginal and Torres
Strait Islander Partnerships

The Honourable Dr Anthony Lynham MP
Minister for Natural Resources, Mines and Energy



Confidentiality and Right to Information (RTI) Non-disclosure Warning

This document contains highly confidential material relating to the business affairs of Energy Queensland Limited. Release of its contents is subject to the provisions of the Right to Information Act 2009. Any unauthorised disclosure of material contained in this statement may diminish the commercial value of that information and would have an adverse effect on the business, commercial and financial affairs of Energy Queensland Limited.

PO Box 1090, Townsville QLD 4810
Level 6, 420 Flinders Street, Townsville QLD 4810
www.energyq.com.au

Energy Queensland Limited ABN 96 612 535 583

© Energy Queensland Limited 2018

This work is copyright. Material contained in this document may be reproduced for personal, in-house or non-commercial use, without formal permission or charge, provided there is due acknowledgement of Energy Queensland Limited as the source. Requests and enquiries concerning reproduction and rights for a purpose other than personal, in-house or non-commercial use, should be addressed to the General Manager External Relations, Energy Queensland, PO Box 1090, Townsville QLD 4810.

Contents

1	Introduction.....	4
2	Shareholder Expectations.....	6
3	Performance Indicators.....	7
	3.1 Financial and Non-financial Performance Indicators.....	7
4	Financial Information	8
	4.1 Key Developments / Factors.....	8
	4.1.1 Merger Savings.....	8
	4.1.2 Roadmap Initiatives	9
	4.1.3 Distribution	9
	4.1.4 Retail	10
	4.1.5 Non-regulated and Yurika	10
	4.2 Consolidated Financial Information.....	11
	4.2.1 Statement of Profit and Loss.....	11
	4.2.2 Statement of Financial Position	13
	4.2.3 Statement of Cash Flows.....	14
	4.2.4 Statement of Capital Expenditure	15
	4.3 Major capital projects	16
	4.4 Community Service Obligation (CSO)	16
	4.5 Other Financial Information	17
	4.5.1 Weighted Average Cost of Capital.....	17
	4.5.2 Capital Structure and Dividend Policies.....	17
	4.5.3 Investment Thresholds.....	17
	4.6 Financial Assumptions	18
5	Government Directions	19
6	Performance Agreement	20
7	Attachments.....	21
	7.1 Attachment 1 – List of Performance Indicator Descriptions	22
	7.2 Attachment 2 – Employment and Industrial Relations Plan.....	23
	7.3 Attachment 3 – Large projects to be completed in 2018/19	31
	7.4 Attachment 4 - Sponsorship, advertising, corporate entertainment, donations and other activities	32
	7.5 Attachment 5 - Weighted average cost of capital calculations.....	35
	7.6 Attachment 6 – Glossary of Terms	36

1 Introduction

This 2018/19 Statement of Corporate Intent (SCI) has been prepared in compliance with the *Government Owned Corporations Act 1993* (GOC Act) and represents a formal agreement between the Board of Energy Queensland Limited (Energy Queensland) and its shareholding Ministers with respect to the financial and non-financial performance targets specified for the financial year. The SCI also represents an acknowledgement of, and agreement to major activities, objectives, undertakings, investments and borrowings of Energy Queensland for 2018/19. This SCI is consistent with Energy Queensland's 2018/19 to 2022/23 Corporate Plan (CP).

In 2018/19, Energy Queensland will continue to build on the significant progress made during 2017/18 where the focus was to establish a strong safety culture, build innovation capability to drive business growth, deliver a valued and affordable customer experience and set up our people for success. Energy Queensland will continue to progress the ongoing transformation of its portfolio structure and operating model whilst also recognising the expectations of its shareholders as expressed in the Shareholder Mandate issued in June 2017. These expectations have been taken into account in the development of Energy Queensland's strategy and in setting performance targets for this SCI.

In order to effectively respond to the emerging disruptive market challenges, Energy Queensland has established four core strategic objectives that have been developed to support the transformation of the network and services to meet the future energy needs of our customers. These objectives are:

Community and customer focused - maintain and deepen our communities' trust by delivering on our promises, keeping the lights on and delivering a valued customer experience every time;

Operate safely as an efficient and effective organisation - continue to build a strong safety culture across the business and empower and develop our people while delivering safe, reliable and efficient operations;

Strengthen and grow from our core - leverage our portfolio business, strive for continuous improvement and work together to shape energy use and improve the utilisation of our assets; and

Create value through innovation - be bold and creative, willing to try new ways of working and to deliver new energy services that fulfil the unique needs of our communities and customer.

The Energy Queensland vision is that "*We energise Queensland communities*". Consistent with the vision, the purpose of Energy Queensland is to "*safely deliver secure, affordable and sustainable energy solutions with our communities and customers*". During 2018/19, Energy Queensland is committed to meeting the expectations of its shareholders with a focus on:

- Continuing to improve underlying operational performance, and enhance business efficiencies whilst optimising network investment;
- Proactively influencing structural, regulatory and tariff reform;
- Growing and maximising unregulated revenue;
- Embedding a culture of operational excellence as a High Reliability Organisation (HRO) with a specific focus on the safety and engagement of our people;

- Managing long term strategic risks in relation to prices, revenue, asset value and shareholder returns; and
- Investigating measures to effectively orchestrate Distributed Energy Resources (DER) towards the evolution to an active Distribution System Operator (DSO).

In providing effective governance, oversight and strategic direction over the affairs of Energy Queensland, as well as those of its subsidiaries, the Energy Queensland Board is committed to ensuring the interests of the shareholding Ministers are met. Should any major changes to key assumptions and outcomes detailed in this SCI come to the attention of Energy Queensland this financial year, these matters will be brought to the attention of shareholding Ministers.

2 Shareholder Expectations

From June 2017, shareholding Ministers set out their expectations for Energy Queensland in the Shareholder Mandate which includes a number of immediate, high and long term value priorities. The summary priorities are listed in Table 1 below.

Table 1: Summary of Shareholder Mandate priorities

Immediate	High	Long Term Value
<ul style="list-style-type: none"> • Safe and reliable supply of electricity • Implement merger • Deliver merger synergies and efficiency savings • Establish Energy Services • Customer service delivery improvements 	<ul style="list-style-type: none"> • Strengthen retail business • Deliver sustainable long-term returns • Net flows to Government and the CSO 	<ul style="list-style-type: none"> • Price impacts on long term sustainability • High Voltage asset alignment • Leverage Telecommunications and Assets • Revenue Diversification

Energy Queensland continues to recognise the expectations of its shareholders as expressed in the Mandate in the development of its strategy and business operations. In 2018/19, Energy Queensland's focus will be on:

- Ongoing restructuring throughout the organisation to ensure greater efficiency and alignment of capability;
- Delivery of the merger savings;
- Progressing the development of the Enterprise Resource Plan (ERP);
- Continuing to increase the product and service choice for regional Queensland's electricity consumers (within Government policy);
- Undertaking consultation with customers and retailers on a range of innovative cost reflective network tariff options;
- Working actively with government in relation to the Community Service Obligation (CSO) to identify initiatives to reduce CSO contributions particularly in the Western pricing zone; and
- Developing bundled commercial solar, storage and Virtual Power Plant (VPP) offers and contract opportunities through Yurika.

3 Performance Indicators

3.1 Financial and Non-financial Performance Indicators

Energy Queensland's financial and non-financial performance indicators and targets for 2018/19 are set out in Table 2 below. The business will report to shareholding Ministers on a quarterly basis in regard to its performance against these measures and targets. Metric definitions are included in section 7.1.

Table 2: Energy Queensland's Financial and Non-financial Performance Indicators

Key Result Areas (KRAs)	Measure	2018/19 Target
Safety	TRIFR ¹	5% improvement
	LTIFR ¹	5% improvement
Financial	NPAT (\$M)	529.9
	SCS TOTEX (\$M)	1,795.7
	ROCE	6.3%
Customer	Customer Index	6.7
People	Employee Engagement Results	68%
Operations	Minimum Service Standards (MSS)	Achieve MSS
	PoW Delivery Index	>90%

1. Target to be established based on an improvement from 2017/18 end of year actuals.

4 Financial Information

The information in this section is provided in accordance with Section 106 of the GOC Act and provides the financial forecasts for Energy Queensland for the 2018/19 financial year. Energy Queensland is anticipated to remain in a strong financial position supported by the underlying regulated asset base (RAB).

Net profit and consequently future dividends are expected to decrease compared to the 2017/18 budget in correlation with the decrease in Distribution revenue (due to smoothing/phasing across the current regulatory period and the unwinding of previous solar and under recoveries) and other factors such as the increase in borrowing costs.

4.1 Key Developments / Factors

4.1.1 Merger Savings

As announced by the Queensland Government in the 2015/16 Mid-Year Fiscal and Economic Review (MYFER), the formation of Energy Queensland was expected to result in savings of approximately \$562 million against the Government's forward estimates at that time. The forward estimates approximated the regulatory allowance over the period to 2019/20 ("Baseline"). Progress against these savings expectations is considered to be most appropriately measured with reference to Standard Control Services (SCS) total expenditure. Expenditure on Alternative Control Services (ACS) is not wholly controllable as volumes are subject to external forces such as market demand. Increased expenditure might also be appropriate in other areas, such as investments to grow non-regulated activities.

For the 2018/19 year, Energy Queensland expects to achieve approximately \$93 million of savings net of implementation costs against the baseline, with a cumulative total in anticipated net savings of \$595 million by the end of 2019/20 which exceeds the target of \$562 million as referenced in the Shareholder Mandate. Meeting these savings targets is a fundamental element of Energy Queensland's financial strategy that enables the group to operate and maintain its electricity distribution networks in a manner that is efficient while maintaining appropriate safety and reliability standards. This in turn contributes to an offering that is valued by customers and considered appropriate by the Australian Energy Regulator (AER). The relationship between the estimates of costs in the combining entities before the merger and the forward targets for Energy Queensland is shown in Table 3 below. The phasing of the planned savings might vary as the business responds to changing circumstances and actual outcomes.

Energy Queensland will continue to strive to make further sustainable efficiency savings where available with due consideration of other shareholder priorities as articulated in the Shareholder Mandate.

Table 3: Energy Queensland SCI/CP savings compared to 2015 MYFER

Consolidated Group (\$M)	2016/17 Actuals	2017/18 Estimated Actuals	2018/19 Plan	2019/20 Plan	Total	Target
AER SCS Totex Allowance	1,958.0	1,913.0	1,939.0	1,979.0	7,789.0	
SCS Totex Actual/Target	1,721.0	1,673.1	1,795.7	1,798.8	6,988.6	
Implementation and Redundancy Costs	44.0	57.0	50.6	54.3	205.9	
EQL SCI/CP net savings compared to AER	193.0	182.9	92.7	125.9	594.5	562.0

4.1.2 Roadmap Initiatives

In response to the State Government's announced merger savings of \$562 million, Energy Queensland developed a number of initiatives (known as roadmaps) outlining efficiency savings and transformation plans. These roadmap related savings have been factored into the 2018/19 and future budgets up to 2019/20 and represent Energy Queensland's commitment to achieving its savings target. Roadmap savings are monitored and validated using a robust governance framework and methodology. The roadmaps continue to be used as an ongoing management tool to ensure delivery of savings into the next regulatory control period. Energy Queensland will continue to make regular updates available to shareholder representatives and will provide any additional information that may be required.

During 2018/19, Energy Queensland is expecting to deliver indirect expenditure savings when compared with its 2017/18 budget. Roadmap initiatives for 2018/19 focus on the continued consolidation of corporate support functions, process re-design, information and communications technology (ICT) enablement activities and delivering field related productivity improvements.

4.1.3 Distribution

Inherent uncertainty in financial outcomes related to the distribution business increases as the next regulatory determination period approaches. The two main uncertainties to the future revenue allowance arise from the AER's view of appropriate spend by the distribution businesses and the allowed rate of return. A reduction in allowed Totex will challenge Energy Queensland's ability to maintain targeted profit and dividend levels. Energy Queensland continues to consider strategies to continue efficiency programs beyond 2019/20 in response to regulatory risk.

4.1.4 Retail

In 2018/19, Ergon Energy Queensland (Retail) is expecting an EBIT of approximately \$299 million. The 2018/19 estimated sales are based on assumed regulated retail electricity prices for regional Queensland in 2018/19 as published in the draft determination of the Queensland Competition Authority (QCA) and expected load. Any change to prices in the final determination or fluctuations in load will result in actual results different to those estimated in this document. Due to the nature of the business, Retail's financial estimates are subject to a higher degree of inherent estimation uncertainty and risk than the Distribution business. Also subject to estimation is wholesale energy cost which, in addition to impacts from seasonal factors and weather conditions, is affected by other factors that impact energy markets. These include increased renewables, over supply of solar generation and the impact of sustained investment in new large-scale renewable energy projects on large-scale generation certificate prices.

4.1.5 Non-regulated and Yurika

Continued Yurika business growth is a key priority for Energy Queensland over the 2018/19 year. The EBIT contribution from non-regulated activities is expected to grow by 23% to \$43 million or 3% of total consolidated EBIT in 2018/19 (up from 2% in 2017/18 budget).

Yurika's strategy is underpinned by the following priority focus areas:

- Leveraging the opportunity Power of Choice (PoC) provides to further enhance the position of Metering Dynamics within the National Electricity Market (NEM);
- Virtual Power Plant (VPP), a cloud-based platform that intelligently manages different power sources and consolidates the information to create meaningful data that enables the supply of more affordable and reliable energy;
- Providing specialist engineering services to develop products and services that support the diverse range of activities in the Energy Queensland group while delivering commercial benefits to shareholders; and
- Growing the telecommunications portfolio by leveraging the Ergon Energy Telecommunications Pty Ltd (Nexium Telecommunications) high-speed commercial grade fibre optic network.

Developing business cases that build the customer platform for the future provides more specific data about energy load and greater access to renewables which enables retailers to provide innovative services at efficient prices and more control for customers.

Yurika is also assessing the attractiveness of a number of current and new growth pathways including:

- Metering (current);
- Utility Services (current);
- Micro-grids (new);
- DER (new); and
- Telecommunications (current).

In particular, Yurika is focused on building a portfolio of businesses with a common purpose that delivers synergies and an integrated value proposition to customers. Together, these businesses are expected to form a new eco-system within Energy Queensland that will contribute significant value over the medium term.

4.2 Consolidated Financial Information

4.2.1 Statement of Profit and Loss

Table 4: Statement of Profit and Loss

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Operating Revenue		
Distribution Use of System (DUoS) Revenue	2,841.2	2,652.5
Transmission Use of System (TUoS) Revenue	591.6	562.7
Energy Sales - EEQ	2,091.4	2,047.0
Elimination of DUoS & TUoS charge to EEQ	(1,332.3)	(1,226.8)
Other SCS Revenue	268.1	241.5
ACS Revenue	329.0	302.1
Unregulated Revenue	219.1	247.1
Interest Received	19.3	2.7
Other Revenue	16.4	24.4
Total Operating Revenue	5,043.9	4,853.1
Direct Operating Expenditure		
TUoS Expenditure	592.2	560.7
Energy Purchases	697.7	731.8
Solar PV Feed In Tariff	287.4	284.2
CSO Expense offset	(488.2)	(461.8)
SCS Program of Work	612.0	636.6
ACS Program of Work (including unfunded)	168.6	194.5
Unregulated Expenditure	198.2	218.8
Other Direct Expenditure	27.2	68.6
Total Direct Operating Expenditure	2,095.1	2,233.5
Indirect, Depreciation & Amortisation		
Indirect Expenditure (excl Restructure)	783.6	809.2
Corporate Restructuring Costs	31.5	30.6
Depreciation & Amortisation	924.1	933.7
Overhead Allocation	(667.8)	(701.2)
Realised Earnings Before Interest & Tax	1,877.4	1,547.2
Mark to Market (MTM) Loss/(Gain)	0.0	0.0
Earnings Before Interest & Tax (EBIT)	1,877.4	1,547.2
Borrowing Costs	746.4	790.2
Income Tax Expense	339.3	227.1
Net Profit After Tax (NPAT)	791.7	529.9

Table 5: Distribution yield and [REDACTED]

Distribution Yield (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Dividends	791.7	529.9
RAB (SCS only)	23,110.7	23,881.7
Debt	16,250.0	16,800.0
Distribution Yield	11.5%	7.5%
[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4.2.2 Statement of Financial Position

Table 6: Statement of Financial Position

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Cash Assets	5.2	10.0
GOC Cash Management Facility	468.0	391.8
Current Receivables	1,060.7	1,066.6
Inventories	171.6	176.8
Current Assets Held for Sale	2.1	2.1
Financial Assets	191.5	82.0
Other Current Assets	60.4	10.7
TOTAL CURRENT ASSETS	1,959.4	1,740.1
Non-Current Receivables	1.9	0.7
Property, Plant and Equipment	23,898.0	24,740.4
Intangible Assets	288.2	419.2
Other Non Current Assets	269.6	247.2
TOTAL NON-CURRENT ASSETS	24,457.7	25,407.4
TOTAL ASSETS	26,417.2	27,147.5
Current Payables	581.4	999.8
Current Interest Bearing Liabilities	36.1	16.5
Current Provisions	1,011.5	804.5
Current Financial Liabilities	131.8	131.8
Other Current Liabilities	402.9	345.6
TOTAL CURRENT LIABILITIES	2,163.8	2,298.2
Non Current Interest Bearing Liabilities	16,250.0	16,800.0
Net Deferred Tax Liabilities	3,696.0	3,861.9
Non Current Provisions	38.9	29.6
Other Non-Current Liabilities	292.6	4.7
TOTAL NON-CURRENT LIABILITIES	20,277.5	20,696.2
TOTAL LIABILITIES	22,441.3	22,994.5
NET ASSETS	3,975.9	4,153.0
Contributed Equity	1,008.4	1,008.4
Retained Earnings	227.7	227.7
Reserves	2,739.7	2,916.9
TOTAL SHAREHOLDER'S EQUITY	3,975.9	4,153.0

Table 7: Debt to RAB Ratio

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Debt	16,250.0	16,800.0
Estimated RAB	23,110.7	23,881.7
Debt to RAB ratio	70%	70%

4.2.3 Statement of Cash Flows

Table 8: Statement of Cash Flows

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	5,266.5	5,214.0
Payments to Suppliers and Employees	(3,268.5)	(3,115.6)
Community Service Obligation	488.2	464.0
Borrowing Costs	(744.7)	(770.5)
Income Tax Equivalent Received / (Paid)	(219.9)	(237.2)
NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES	1,521.6	1,554.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdraws / (advances) to QTC Investment	578.6	76.2
Payments for property, plant and equipment	(1,330.0)	(1,392.3)
Proceeds from sale of property, plant and equipment	25.6	5.5
Interest received	19.3	2.7
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	(706.5)	(1,308.0)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds / (Repayment) from Borrowings	0.0	550.0
Dividends Paid	(881.7)	(791.7)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	(881.7)	(241.7)
Cash at the Beginning of the Financial Period	71.8	5.2
Net Increase/ (Decrease) in Cash Held	(66.6)	4.8
CASH AT THE END OF THE FINANCIAL PERIOD	5.2	10.0

Table 9: Distribution Cash Coverage

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Distribution Cash Coverage	0.9	1.0

Table 10: Net Cash Flows to Government

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Dividends Paid	881.7	791.7
Income Tax Paid	219.9	237.2
CSO (Community Service Obligation) received	(488.2)	(461.8)
Pensioner Rebates received (TBC)	(54.3)	(55.7)
Net Flow to Government	559.1	511.4

4.2.4 Statement of Capital Expenditure

Table 11: Statement of Capital Expenditure

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Standard Control - System		
Augmentation (Augex)	214.5	217.2
Replacement (Repex)	515.3	532.6
Connections	163.8	160.9
Total Standard Control - System	893.6	910.6
Other Capital Expenditure		
Non System	123.5	172.8
Alternative Control Services	158.3	148.6
ICT (Digital Office)	152.9	131.2
Total Other Capital Expenditure	434.8	452.6
Unregulated	74.8	103.5
Total Capital Expenditure	1,403.1	1,466.8

For 2018/19 Energy Queensland's total capital expenditure (CAPEX) is forecast at \$1,467 million. For the regulated distribution business, CAPEX over 2018/19 is planned to be lower than the allowance set by the AER for the Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) distribution entities by \$91 million as Energy Queensland continues to improve underlying operational performance and enhance business efficiencies whilst optimising network investment. Other CAPEX across the Group is expected to increase as property projects deferred from the current year are brought to completion.

4.3 Major capital projects

A list of major capital projects with a total escalated cost of over \$2 million that are scheduled to be completed in 2018/19 are outlined in Attachment 3 – Large Projects. These projects are under continuous review and are subject to change pending final scoping.

4.4 Community Service Obligation (CSO)

The Uniform Tariff Policy (UTP) provides for parity of pricing for all non-market electricity consumers, regardless of their geographic location in Queensland. For customers outside of the south east corner, the cost of supplying electricity typically exceeds the recovery allowed for in regulated retail tariffs. The Queensland Government pays Retail a CSO to compensate for elements, as specified in the CSO Deed, associated with this under-recovery.

The revenue from energy sales varies over the year depending on:

- The time of year, as typically the volume of sales is highest during summer months; and
- The tariff mix, which influences the price of energy sold.

The CSO payments were agreed at a fixed amount up to June 2020. During this period, volatility in actual outcomes compared to initial estimates will be absorbed by the entity and will flow to Energy Queensland's tax equivalent and dividend payments. The CSO is subject to many variables and thus the forecast is subject to a high number of assumptions. Estimated network charges are based on the AER Determination and related adjustments and are subject to revision pending updated information such as approval of revenue and tariffs (including pass-throughs and other adjustments). The expected volume of energy sales are estimated taking into account current sales volumes, historical churn, expected weather conditions and the expected level of solar photovoltaic (PV) uptake. The expected revenue from sales is developed based on latest available rates set by the QCA. Changes in any of these assumptions would impact the CSO outcomes. The budgeted amounts per category of CSO are as follows:

Table 11: CSO Budget by category

Category	Amount (\$M) ¹
NEM ¹	380,186
Mt Isa	17,375
Isolated	50,406
CSO over recovery ²	13,845
Total	461,812

1. Where NEM CSO includes NEM CSO, ACS Metering CSO and Drought Relief.

2. The CSO over recovery represents the difference between the calculated CSO and fixed CSO.

Energy Queensland continues to work with Queensland Government representatives to develop strategies which could reduce the CSO over time.

4.5 Other Financial Information

4.5.1 Weighted Average Cost of Capital

During the 2018/19 year, Energy Queensland will prepare regulatory proposals for the electricity distribution networks due for submission to the AER in January 2019. A key consideration for the regulatory proposal is the determination by the AER of the weighted average cost of capital (WACC) parameters. The financial projections for the following regulatory control period assume the current WACC of 6.01%. If the WACC determined by the AER is different to the assumed WACC, this will have revenue, and consequently profit and dividend implications in future years.

An appropriate benchmark WACC is considered independently by the Board in their annual valuation of the supply system, and may vary from the AER determined benchmark WACC. An appropriate WACC to apply to the non-regulated business areas is also reviewed periodically based on the cost of capital principles as prescribed by Queensland Treasury Corporation. An appropriate WACC to apply to specific, material non-regulated opportunities is reviewed on an individual basis.

4.5.2 Capital Structure and Dividend Policies

Energy Queensland's dividend policy complies with the GOC Act and the Corporations Act 2001 (Cwlth). The Board targets a long term capital structure of 70% debt to the SCS 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 Energy Queensland's consolidated profit. The Board adopts such a policy on the basis of 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. It is anticipated that Energy Queensland would be in a position to maintain a stand-alone credit rating for the merged business of at least BBB.

4.5.3 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 2018/19, 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.

In relation to Building Queensland:

- Projects greater than \$50 million require a business case to be submitted to Building Queensland for review; and
- Projects greater than \$100 million require Building Queensland to lead the business case.

4.6 Financial Assumptions

The financial forecasts are based on a set of economic and operational assumptions as shown below in Table 12.

Table 12: Key annual assumptions

Consolidated Group (\$M)	2017/18 Estimated Actuals	2018/19 Plan
Effective Long Term Interest Rate	4.70%	4.78%
Consumer Price Index	2.50%	2.50%
Corporate Tax Rate	30%	30%
Dividend Payout Ratio	100%	100%
Weighted Average Cost of Capital	6.04%	6.01%
Gearing Ratio Benchmark - Debt/RAB(SCS)	70%	70%

5 Government Directions

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

6 Performance Agreement

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

In accordance with Chapter 1, Part 3, Section 7 of the *Government Owned Corporations Act 1993*, the Statement of Corporate Intent represents a formal performance agreement between the Board of Energy Queensland and its shareholding Ministers, with respect to the financial and non-financial performance targets specified for the financial year. The Statement of Corporate Intent also represents an acknowledgment of an agreement to Energy Queensland's major activities, objectives, undertakings, policies, investments and borrowings for the 2018/19 financial year. This Statement of Corporate Intent is consistent with Energy Queensland's 2018/19 to 2022/23 Corporate Plan submitted to the shareholding Ministers in accordance with Chapter 3, Part 7 of the *Government Owned Corporations Act 1993*.

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

In signing this document, the Board of Energy Queensland undertakes to achieve the targets proposed in the Statement of Corporate Intent for the 2018/19 financial year.

Major changes to key assumptions and outcomes detailed in this Statement of Corporate Intent, 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 *Government Owned Corporations Act 1993*.

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



Philip Garling
Chairman
Date: 31 May 2018



David Smales
Chief Executive Officer
Date: 31 May 2018

The Honourable Jacklyn (Jackie) Trad MP
Deputy Premier, Treasurer and Minister for
Aboriginal and Torres Strait Islander
Partnerships
Date:

The Honourable Dr Anthony Lynham MP
Minister for Natural Resources, Mines and
Energy
Date:

7 Attachments

Attachment 1	List of Performance Indicator descriptions
Attachment 2	Employment and Industrial Relations (E&IR) Plan
Attachment 3	Large Projects with a total escalated cost over \$2M scheduled to be completed in 2018/19
Attachment 4	Sponsorship, advertising, corporate entertainment, donations and other activities
Attachment 5	Weighted average cost of capital calculations
Attachment 6	Glossary of Terms

7.1 Attachment 1 – List of Performance Indicator Descriptions

Performance Indicator	Definition
TRIFR	Rate of recordable injuries and illnesses per million hours worked in the reporting period.
LTIFR	Rate of lost time injuries and illnesses per million hours worked in the reporting period.
NPAT	Provides a measure of Energy Queensland's profitability after debt servicing costs and income tax.
SCS TOTEX	Total expenditure relating to standard control services
ROCE	Measures return on capital employed
Customer Index	Customer Index measures the customer experience being delivered across the portfolio of Energy Queensland businesses. The aim of the CI metric is to provide the business with a tool to accurately track performance and in doing so provides in-depth data and customer rich insights to specific touchpoints. These insights enable the business to understand customer touchpoints and develop improvements to the customer experience.
Employee Engagement Results	Measures employee engagement to the business
Minimum Service Standards Levels	Subject to exclusions prescribed in the Electricity Industry Code, a distribution entity must use its best endeavours to ensure that it does not exceed in a financial year the a) system average interruption duration index (SAIDI) and b) system average interruption frequency index (SAIFI) limits by feeder type (i.e. CBD, Urban, Rural)
PoW Delivery Index	<p>PoW Delivery Index consolidates the results of the following measures:</p> <ul style="list-style-type: none"> • CAPEX project designs completed to program; • CAPEX projects commissioned to program; • CAPEX planned physicals to program; • OPEX planned physicals to program; • Customer projects on time; and • Customer initiated service orders on time.
Shareholder Mandate Measure	Calculation
Distribution Yield	$(\text{Dividend} + \text{Special Dividend} + \text{Capital Return}) / \text{RAB} - \text{Debt}$
Distribution Cash Coverage	$(\text{Operating Cash Flows} - \text{Stay-in-Business Capex}) / \text{Distribution Paid}$

7.2 Attachment 2 – Employment and Industrial Relations Plan

Employment and Industrial Relations Direction

Energy Queensland's vision of energising Queensland communities will be achieved by safely delivering secure, affordable and sustainable energy solutions with our communities and customers.

At Energy Queensland, our people are our most valuable asset and are the key to our success and our evolution into a business which truly energises our communities.

Our unifying Vision, Purpose and set of Values will help guide us as we move forward. Our strategy focuses on the following strategic objectives:

- Being community and customer focused;
- Operating safely as an efficient and effective organisation;
- Strengthening and growing from our core; and
- Creating value through innovation.

Our leadership competencies and SKILLED values - Safe, Knowledgeable, Innovative, Leading, Listening, Engaged and Diverse, will underpin this strong, shared approach to the future; creating a workplace and culture which encourages us to bring the very best of our knowledge, experience, skills and abilities to what we do. This plays a crucial role in building an engaged and capable workforce with a positive workplace culture that is supported by our corporate values.

Energy Queensland's employment and industrial relations direction seeks to support a collaborative environment by setting a foundation for achieving organisational outcomes through relationship building; genuine and meaningful engagement; and effective workplace resolution. This is aligned with the organisation's overarching people focus, which places primary importance on proactive and genuine engagement.

Achieving both sustainable and transformational workplace change will be best realised by co-operative and open engagement with our employees and their union representatives.

2017/18 Remuneration for CEO and Senior Executives

The remuneration provided in the table below reflects CEO and Senior Executives at 1 July 2017.

CEO / Senior Executives	Base salary	Employer superannuation contributions	Total remuneration (exc performance pay)	Performance payment ¹	Total remuneration
David Smales Chief Executive Officer	\$860,521	\$20,049	\$880,570	\$90,641	\$971,211
Peter Scott Chief Financial Officer	\$513,078	\$20,049	\$533,127	\$65,649	\$598,776
Paul Jordon EGM Distribution. ²	\$472,996	\$47,300	\$520,296	\$52,594	\$572,890
Belinda Watton Chief Transformation Officer	\$401,532	\$20,049	\$421,581	\$57,944	\$479,525
Peter Price EGM Asset Safety and Performance	\$424,601	\$42,461	\$467,062	\$58,806	\$525,868
Barbara-Anne Bensted Chief Digital Officer. ³	\$401,532	\$20,049	\$421,581	\$22,177	\$443,758
Cheryl Hopkins EGM Retail	\$414,323	\$20,049	\$434,372	\$20,535	\$454,907
Charles Rattray EGM Energy Services	\$411,257	\$20,049	\$431,306	\$23,001	\$454,307
Craig Chambers ⁴ EGM Strategy, Portfolio and Innovation	\$469,851	\$20,049	\$489,900	\$33,428	\$523,328

¹ Performance payments indicated are for the performance period 2016 - 2017. Prorated payments were made for David Smales, Barbara-Anne Bensted, Cheryl Hopkins and Charles Rattray based on commencement date with Energy Queensland.

² Paul Jordon was appointed EGM Distribution commencing 11 December 2017. Paul Jordon was Acting Chief Operating Officer receiving higher duties Total Remuneration (excluding performance pay) of \$566,548 from 6 March 2017.

³ Barbara-Anne Bensted ceased employment with Energy Queensland effective 30 March 2018.

⁴ Craig Chambers ceased employment with Energy Queensland effective 9 April 2018.

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 2017; and
- Energy Queensland Retail Union Collective Agreement 2017.

Collective bargaining with industry unions will continue to be the preferred means of industrial regulation of enterprise agreements (consistent with Government GOC 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 (Services Union).

The Association of Professional Engineers, Scientists and Managers, Australia (Professionals Australia)

Automotive, Metals, Engineering, Printing and Kindred Industries Union of Employees (AMWU)

Types of Employment

At 31 December 2017, Energy Queensland Full time equivalent numbers (FTE) in each Employment Category are listed below:

Employment Category	Energy Queensland Total
Permanent Employees	6,460.3
Fixed Term Employees. ⁵	153.6
Senior Executive Contract	9.0
Apprentices (In House)	431.0
Trainees (In House)	12.0
Casual Employees	63.5
Total Directly Employed Workforce	7,129.4
s457 Temporary Visa (excluded from total) ⁶	1.0
Total Workforce	7,129.4

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

6. S457 Temporary Visa employees are included in one of the Total Directly Employed Workforce categories and they are on a temporary visa while their permanent residency visas are being processed.

As at 31 December 2017, Energy Queensland subsidiary 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 2017	6,569.2
	• Energy Queensland Retail Union Collective Agreement 2017	301.6
	Total Enterprise Agreements	
Contractual Arrangements*:		
Energy Queensland	• TFR and TEC	258.6
	• Total Contractual Arrangements	258.6
	• Total Number of Employees	7,129.4

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

Enterprise Agreements

The Energy Queensland Union Collective Agreement 2017 replaced and aligned terms and conditions of the Energex Union Collective Agreement 2015, the Ergon Energy Union Collective Agreement 2015 and the Sparq Solutions Enterprise Union Agreement 2016 and was operative from 25 December 2017 (following successful employee ballot and Fair Work Commission approval on 18 December 2017).

The Energy Queensland Retail Union Collective Agreement 2017 also replaced the EEQ Retail Enterprise Agreement 2014 and was similarly operative from 25 December 2017 (following successful employee ballot and Fair Work Commission approval on 18 December 2017).

The enterprise agreement negotiations aligned core enterprise agreement terms, whilst achieving productivity initiatives and cost savings required to fund annual wage increases consistent with the "Government Owned Corporations Wages and Industrial Relations Policy 2015".

Both enterprise agreements operate until 1 March 2021, 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 the current enterprise agreements include:

- Employment Security provisions (i.e. no forced retrenchments);
- 3% per annum pay increases;
- 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 EQUCA 2017).

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 week's 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 EBA 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 30 June 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 2017, Energy Queensland FTE numbers in each Superannuation Fund is listed below:

Business	Energy Queensland Total
Energy Super Defined Contribution Fund	5,645.0
Energy Super Defined Benefit Fund	1,230.0
Other – own choice of fund	254.5
Total	7,129.4

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.

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.

Our 2020 Health, Safety and Environment (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.

To achieve this action will focus on:

People & Wellbeing

- Focus on all aspects of our wellbeing through the deployment of an integrated Health and Wellness Strategy;
- Remove the stigma of mental health through the deployment of the Mates in Energy and Mental Health for Leaders Program;
- Build the competencies that our people need to support safe operations through the SKILLED values Leadership Program; and
- Partner with the community to reduce community incidents through improved asset integrity and community awareness, especially in high risk industries.

Safety is Defence

- Strengthen front line coaching competency and local ownership of safety through the deployment of Safety is Defence (SiD);
- Increase involvement of the workforce in HSE process improvements through key projects including the site hazard management review project; and
- Review the impact our asset management process has on our workforce and community through the development of an Asset Integrity Management Plan.

Sensitivity to Operations

- Maximise new technologies to support improved communications and front line operational outcomes;
- Build a simple and flexible Energy Queensland HSE Management System that supports Operations; and
- Ensure our field leaders have time to apply their SiD coaching skills and support their teams through the Distribution Programming, Scheduling & Supervision (PSS) Project.

Deference to Expertise

- Create simple Works Practices by involving the people who do the work. Review and remove operational paperwork that doesn't add value;
- Ensure our frontline distribution workforce have the right capabilities for a low paperwork environment by reviewing how training and competency is delivered and maintained, and
- Increase our knowledge in sustainable service provision through our Environment and Cultural Heritage Plan.

Continuous Learning

- Foster trust through open and transparent learning from investigations and audits, which do not result in increased complexity in our processes;
- Translate data into information and insights that enable the best decisions to be made; and
- Ensure we understand our inherent exposure to risk in the work we do and assess all available options.

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.

7.3 Attachment 3 – Large projects to be completed in 2018/19

The key projects for 2018/19 listed in the table below include all specific capital works projects with:

- A total escalated cost of \$2M 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/Ergon Energy's Distribution Annual Planning Report (DAPR), which covers a rolling five year planning cycle.

Ergon/ Energex	Project Description	Approved (\$M)	Commissioning Date
Energex	Rebuild Palm Beach substation	13.9	Oct-18
Energex	Replace transformer at Lytton substation	2.4	Oct-18
Energex	Replace 33kV Circuit Breakers at Rocklea substation	2.4	Oct-18
Energex	Replace 33kV & 11kV Circuit Breakers at Lawnton substation	4.4	Nov-18
Energex	Replace transformer at Grantham substation	3.2	Nov-18
Energex	Replace 33kV Circuit Breakers at Zilmere substation	3.1	Nov-18
Energex	Replace transformers at Amamoor substation	3.5	Jan-19
Energex	Replace transformer at Sunnybank substation	2.7	Jan-19
Energex	Rebuild Bundall substation	12.3	Apr-19
Energex	Replace 33kV underground feeder between Doboy Bulk Supply and Gibson Island	2.6	May-19
Energex	Replace transformers and switchgear at Labrador substation	19.2	Jun-19
Energex	Replace transformer and 11kV circuit breakers at Caboolture West substation	11	Jun-19
Energex	Improve 11kV and 33kV reliability at Innisplain	2.2	Jun-19
Ergon	South Toowoomba - Protection relay Replacement project	2.5	Nov-18
Ergon	Moranbah Augmentation & Redevelopment Project	8.2	Dec-18
Ergon	Real Time Capacity Architecture - Ergon Wide	4.6	Dec-18
Ergon	Statcom Deployment - Ergon Wide	2.8	Mar-19
Ergon	Safety Net Implementation in Ergon Southern Region	7.2	May-19

7.4 Attachment 4 - Sponsorship, advertising, corporate entertainment, donations and other activities

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

Activity	2017-18 Estimated Actuals (\$)	2018-19 Budget
Advertising (And Other Marketing Channels)	4,718,953	4,870,759
Community Support - Partnership Programmes	1,387,490	1,254,100
Corporate Entertainment	180,920	110,195
Other Related Activities	88,450	85,400
TOTAL	6,375,813	6,320,454

Advertising

Activity	2017-18 Estimated Actuals (\$)	2018-19 Budget
Over \$5,000		
Community and High Risk Safety Campaigns	2,935,000	2,800,000
General Customer Engagement	200,000	240,000
Other Marketing Activities ¹	719,000	565,000
Retail over \$5,000		
General Customer Engagement – Retail ²	68,000	378,500
Product and Services Marketing	562,953	672,759
Leveraging the Community Partnership Program - Retail	234,000	214,500
TOTAL ADVERTISING	4,718,953	4,870,759

1. Other Marketing Activities includes advertising related to Residential Demand Management activities (\$225k), Nexium Telecommunications (\$210k) and other Yurika advertising activities (\$100k), and other Safety activities outside campaigns (\$30k). Yurika business, marketing and related expenditure is also included in Other Marketing Activities as Yurika expenditure is unconfirmed whilst product development continues. Any Yurika specific expenditure will be provided through regular reporting.

2. General Customer Engagement funding was diverted during 2017-18 to fund other initiatives, with the 2018-19 budget more representative of ongoing business requirements.

Community Support

Activity	2017-18 Estimated Actuals (\$)	2018-19 Budget
Distribution over \$5,000		
Local Government Community Support	35,000	35,000
Queensland State Emergency Services	150,000	150,000
Queensland Rural Fire Service	75,000	75,000
Queensland Museum	220,000	200,000
Queensland Ballet	30,000	30,000
Queensland Theatre Company	50,000	50,000
QUT Scholarship	58,500	50,000
UQ Scholarship	14,500	10,000
API UQ Women in Engineering	20,000	20,000
Carnival of Flowers	20,000	20,000
CEDA Event	6,500	0
Unallocated Funds ³	217,990	133,000
Distribution under \$5,000		
Community Fund ³	200,000	166,100
Local Community Investment Plans ³	230,000	230,000
Retail over \$5,000		
QUT Business Leaders Forum	30,000	30,000
RFDS Local Heroes Award 2018	30,000	30,000
Unallocated funds ³	0	25,000
TOTAL COMMUNITY SUPPORT	1,387,490	1,254,100

3. EQL has a portfolio of companies and we are reviewing each entity's community support marketing activities.

Corporate Entertainment

Activity	2017-18 Estimated Actuals (\$)	2018-19 Budget
Staff Recognition - 25 years of service	5,000	4,000
Other Entertainment below \$5k	175,920	106,195
TOTAL CORPORATE ENTERTAINMENT	180,920	110,195

Donations and other related activities

Activity	2017-18 Estimated Actuals (\$)	2018-19 Budget
Distribution over \$5,000		
Townsville Enterprise Membership	33,000	35,000
Capricorn Enterprise Membership	20,000	20,000
Mt Isa to Townsville Economic Development Zone Inc.	7,500	8,400
CEDA Corporate Membership	6,450	7,000
Clean Energy Council Membership	13,500	0
Urban Development Inst of Australia (UDIA)	0	10,000
Distribution under \$5,000		
Other Community Memberships below \$5k – Dream Big	8,000	5,000
TOTAL OTHER RELATED ACTIVITIES	88,450	85,400

7.5 Attachment 5 - 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

Financial Impact (\$M)	2015-20 Regulatory control period - final determination ¹	2017-18 Regulatory WACC ²	2018-19 Regulatory WACC ²
Vanilla WACC	6.01%	6.04%	6.01%
Cost of Debt (pre-tax)			
Cost of Debt (Kd)	5.01%	5.07%	5.02%
Cost of Equity (post tax)			
- Risk free rate (Rf)	2.96%	2.96%	2.96%
- Market risk premium	6.50%	6.50%	6.50%
- Equity beta	0.70	0.70	0.70
- Gamma	0.40	0.40	0.40
Cost of Equity (Ke) (nominal post tax)	7.50%	7.50%	7.50%
Corporate Tax Rate (T)	30.00%	30.00%	30.00%
Capital Structure			
- % Debt	60%	60%	60%
- % Equity	40%	40%	40%

1. WACC is based on the AER Final Determination.

2. WACC reflects the return on equity as allowed in the AER Final Determination, updated for the annual return on debt as prescribed by the AER.

Capital asset pricing model

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

$$K_e = R_f + \beta_e \times MRP$$

Where: K_e = Required rate of return on equity.

R_f = Required rate of return on a risk free investment.

MRP = Market risk premium.

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

7.6 Attachment 6 – Glossary of Terms

Abbreviation	Description
ACS	Alternative Control Services
AER	Australian Energy Regulator
CAM	Cost Allocation Methodology
CAPEX	Capital Expenditure
CP	Corporate Plan
CSO	Community Service Obligation
DAPR	Distribution Annual Planning Report
DER	Distributed Energy Resources
DUOS	Distribution Use of System
E&IR	Employment and Industrial Relations
EEQ	Ergon Energy Queensland
ERP	Enterprise Resource Plan
FTE	Full Time Equivalent
GOC Act	<i>Government Owned Corporations Act 1993 (Qld)</i>
GOC	Government Owned Corporation
ICT	Information and Communications Technology
KRA	Key Result Area
LTIFR	Lost Time Injury Frequency Rate
MSS	Minimum Service Standards
MYFER	Mid-Year Fiscal and Economic Review
NEM	National Electricity Market
NPAT	Net Profit After Tax
OPEX	Operating Expenditure
PoC	Power of Choice
PoW	Program of Work
QCA	Queensland Competition Authority
RAB	Regulated Asset Base
ROCE	Return on Capital Employed
SCI	Statement of Corporate Intent
SCS	Standard Control Services
SiD	Safety Is Defence
Totex	Total Expenditure
TRIFR	Total Recordable Injury Frequency Rate
TUOS	Transmission Use of System
VPP	Virtual Power Plant
WACC	Weighted Average Cost of Capital

energyq.com.au

Energy Queensland Limited
ABN 96 612 535 583

Head Office Level 6,
420 Flinders Street,
Townsville QLD 4810

PO Box 1090, Townsville QLD 4810

