5 PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

FEATURES

- **On 2 June 2009, the Government announced its intention to dispose of some of its asset portfolio, comprising Forestry Plantations Queensland, Queensland Motorways Limited, Port of Brisbane Corporation, Abbot Point Coal Terminal and QR Limited's above and below rail coal business.**
- **The Government will continue to actively manage its shareholding in Public Non-financial Corporations with the aim of maximising value to the community.**
- **The Government's return from its ownership of businesses in the Public Non-financial Corporation sector is represented by net flows to Government. In 2009-10, there is an estimated inflow of $1.119 billion, comprising dividends of $872 million and current tax equivalent payments of $247 million.**
- **Community service obligation payments of $1.569 billion will be paid to the sector in 2009-10, largely for public transport and electricity subsidies.**
- **In 2009-10, the Government-owned corporations are expected to have a rate of return of 4.7%, increasing to 6.6% by 2012-13 due mainly to an increase in dividends from the transport Government-owned corporations.**
- **QR Limited is continuing to implement the reforms announced as part of the 2008-09 Budget, including changes to the Regional Freight and Livestock businesses to ensure they can reach a position of recovering costs to achieve long term sustainability.**
- **Following the review of the structure of the Queensland port network, the Government has approved the implementation of a five port authority framework. The new framework comprises Far North Queensland Ports Corporation, Port of Townsville Limited, North Queensland Bulk Ports Corporation, Gladstone Ports Corporation and Port of Brisbane Corporation.**

With the impacts of the global financial crisis being felt around the world, the Government remains committed to the delivery of essential infrastructure and continued economic growth. In that context, and bearing in mind the capacity of the State's balance sheet to continue to meet growing and competing demands for services and infrastructure, the Government has announced in the *Renewing Queensland Plan* that it will pursue a significant program of asset sales, including several Government-owned corporations (GOCs), over the next three to five years. In selling the proposed assets, the State is looking to generate proceeds of approximately $15 billion over the period of the disposal program. In the intervening period until sold, all business will continue to invest and operate as normal.

In the Public Non-financial Corporations (PNFC) sector, the Government will continue to invest in key infrastructure during 2009-10 and the forward years to ensure the ongoing delivery of energy, transport and water services to a growing population.

Key infrastructure projects in 2009-10 include:

- QR Limited (QR) will spend $515 million to upgrade infrastructure and rollingstock on the Citytrain network and $862 million on a range of purchases and upgrades to support the haulage of coal in Central Queensland
- Ports Corporation of Queensland Limited (PCQ) has allocated $349.8 million for port expansion and development including at Abbot Point, Louisa Creek, Mourilyan and Thursday Island to improve capacity and meet market growth
- Port of Brisbane Corporation (PBC) is investing $536.5 million over five years for new wharves 11 and 12 and establishing associated land works at Fisherman Islands
- Queensland Motorways Limited's (QML) project to introduce free-flow tolling on the Logan Motorway and existing Gateway Bridge will be implemented in July 2009, with expenditure of $43.6 million in 2009-10
- Powerlink Queensland (Powerlink) will invest $610.4 million in transmission infrastructure and augmentation, while ENERGEX and Ergon will invest a total of $2 billion in distribution infrastructure and augmentation
- Projects arising from the Government's reform of the water supply industry in South East Queensland, including the continued construction of the $9 billion South East Queensland Water Grid.

QR is working with coal company customers to revise the scope of the Goonyella to Abbot Point expansion (GAPE) project, which will provide mines in the Goonyella system with access to the expanding Abbot Point Coal Terminal (APCT). This review has successfully re-scoped the project in order for it to better meet customer capacity and cost expectations. To process the increase in coal from the GAPE, PCQ is expanding APCT to 50 million tonnes per annum by 2011. However, this project is dependent upon coal companies committing to the GAPE project, which includes the Northern Missing Link.

The Government will continue to actively monitor its investment in the PNFC sector to ensure it delivers maximum value for the benefit of Queensland taxpayers, while providing quality services to the community and customers.

NET FLOWS TO GOVERNMENT

The PNFC sector comprises 14 GOCs (QIC Limited is not part of the PNFC sector as it is a Public Financial Corporation) and other entities, including the State water entities, Forestry Plantations Queensland (FPQ) and QML.

Government's return from its ownership of PNFC sector entities is represented by the flows to Government for the financial year. These are the dividends and current tax equivalent payments (TEPs) received from PNFC sector entities. Consistent with Government Finance Statistics requirements, only current TEPs are used to calculate net flows.

In situations when the Government seeks to have a commercial business deliver a particular non-commercial product or service to the community, the Government provides a community service obligation payment (CSO) to the business.

Dividends from the PNFC sector are a function of net profit after tax and the dividend payout ratio, which is determined by shareholding Ministers after considering the circumstances of each individual entity and the advice of the boards. The dividend payout ratios recommended by the boards do not impact on the capacity and requirement of GOCs to carry out necessary maintenance, repairs and asset replacement, as dividends are paid after providing for such costs. Total dividends to be paid to Government in 2009-10 are estimated at $872 million.

Table 5.1
Dividends[1]

	2007-08 Actual $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Energy Sector	604	531	493
Transport Sector (rail and ports)[2]	284	300	342
Other	6	6	37
Non-GOC	113	7	..
Total PNFC sector dividends	**1,006**	**845**	**872**

Notes:
1. Numbers may not add due to rounding.
2. Transport sector increase is due to anticipated better earnings by QR Limited in 2009 10 relative to 2008 09 which was impacted by the economic downturn.

PNFC sector entities pay TEPs in lieu of the taxes they would have to pay if they were not Government-owned, with TEPs calculated as 30 per cent of earnings before tax. Total current TEPs to be paid to Government in 2009-10 are estimated at $247 million.

Table 5.2
Current Tax Equivalent Payments[1]

	2007-08 Actual $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Energy Sector	137	169	141
Transport Sector (rail and ports)[2]	58	29	81
Other	7	27	22
Non-GOC	4	2	2
Total PNFC sector current TEPs	**207**	**228**	**247**

Notes:
1. Numbers may not add due to rounding
2. Transport sector increase relates to a combination of QR Limited's improving financial position and reduced deferred income tax equivalents.

In 2009-10, it is estimated that the Government will pay CSOs of $1.569 billion.

Table 5.3
Community Service Obligation payments[1]

	2007-08 Actual $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Energy Sector	619	500	333
Transport Sector (rail and ports)	1,004	1,143	1,220
Other	11	3	7
Non-GOC	..	9	8
Total PNFC sector CSOs	**1,634**	**1,654**	**1,569**

Notes:
1. Numbers may not add due to rounding
2. The Energy sector CSO provided by Government to allow for a maximum uniform electricity tariff across Queensland is budgeted to reduce in 2009-10 as the cost disparity to supply electricity in regional areas, driven by greater network costs and higher loss factors, is reduced.
3. Transport sector increase is due to forecast passenger train services cost increases and regulated below rail cost increases.

ASSET SALES PROGRAM

The Government announced plans on 2 June 2009 to dispose of some of its asset portfolio including:

- Queensland Motorways Limited
- Port of Brisbane Corporation Limited
- Forestry Plantations Queensland
- Abbott Point Coal Terminal
- QR Limited's above and below rail coal business plus options to sell QR's bulk freight, intermodal, retail and regional freight services.

In selling the portfolio of assets proposed, the Government is looking to generate proceeds of approximately $15 billion over a three to five year asset disposal program. As well as generating these sale proceeds which will be used to retire debt, the Government will also avoid the necessity to spend as much as $12 billion in future capital expenditure that these businesses require over the next five years. While Government will have to outlay some of this additional capital expenditure up until sale, it should be fully recovered through additional sale proceeds.

In the intervening period until sold, all businesses will continue to operate as usual and customers should continue to negotiate new contracts with the businesses announced for sale. Further details on the activities of each business are in the relevant section below.

QR coal and freight businesses

The State will look to structure the coal infrastructure sale packages in a way which provides an opportunity for the efficiency of the rail-to-port network to be maximised. For instance, some sections of QR's below rail coal network could be packaged together with PCQ's Abbot Point Coal Terminal. Such a structure would ensure the objectives of the port and rail infrastructure providers are better aligned in relation to the important Newlands and Goonyella networks.

The coal infrastructure sales package will include the sale of QR's above and below rail coal businesses. Opportunities to package all or parts of QR's bulk, intermodal, retail and regional freight services are to also be investigated. QR's passenger services business, above and below rail, will not be sold.

Abbot Point Coal Terminal

Abbot Point Coal Terminal, located north of Bowen, is Australia's most northerly coal port. Together with rail handling and coal stockpiling areas, it comprises a shiploader facility located 2.75 kilometres offshore. Coal is supplied to Abbot Point by rail, primarily from the Newlands, Collinsville and Sonoma mines.

Together, the QR and Abbot Point Coal Terminal transactions are expected to facilitate increased investment by the private sector in the maintenance and expansion of this infrastructure in the future. This transaction is also expected to align rail and port ownership to assist in overcoming infrastructure development bottlenecks associated with rail and port owners historically having different views on the scope and timing of new works.

Port of Brisbane Corporation

PBC is primarily responsible for the landlord functions at the Port of Brisbane and the Port of Bundaberg, and also has a major property development function for the development of strategic port land.

The sale of the Port of Brisbane will facilitate future investment and development of export facilities. It will also avoid the need for Government investment in the future capital expansion required at the Port totalling nearly $500 million over the next five years.

The Port of Bundaberg will not be sold as part of the sale process but will be transferred to the Gladstone Ports Corporation ahead of the sale of PBC.

Queensland Motorways Limited

QML has a franchise agreement with the Government to operate and maintain the Logan Motorway, Gateway Bridge and Gateway Motorway between Nudgee Road and Mt Gravatt-Capalaba Road, and the Gateway Extension Motorway (collectively the Gateway Franchise). QML currently operates five toll plazas at the Gateway Bridge, Kuraby, Stapylton Road, Loganlea and Paradise Road interchange, with the introduction of free-flow tolling expected to occur from 1 July 2009. QML also maintains a significant section of the Port of Brisbane Motorway.

The sale of QML will also incorporate a major upgrade of the Port of Brisbane Motorway.

In conjunction with the sale of PBC, the sale of QML's assets is expected to facilitate further development expansion of the Port of Brisbane and its surrounding infrastructure.

Forestry Plantations Queensland

The sale of FPQ will focus initially on FPQ's softwoods business. FPQ was created on 1 May 2006 as part of significant commercial reform of State owned forestry plantation management in Queensland.

FPQ currently manages:

- exotic pine plantations at Beerburrum, Passchendaele (near Stanthorpe), Pechey (near Crows Nest), Toolara (near Gympie), Tuan (near Maryborough), Byfield (near Yeppoon), Ingham, Cardwell, Atherton and Cathu (near Proserpine)
- hoop pine plantations at Imbil, Brooyar (near Kilkivan), Jimna and Gallangowan, Yarraman, Kalpower (near Monto), Palen Creek and Atherton
- hardwood plantations around Kingaroy, Wondai, Gayndah, Mundubbera, and on the coastal plan between Beerburrum and Gympie.

Further investigations and specialist advice will determine whether the sale will also include FPQ's hardwood plantations.

CAPITAL STRUCTURE REVIEW

The Government, through the Queensland Treasury Corporation (QTC), has assessed the capital structure of each GOC with the objective of ensuring that all GOCs maintain a private rating of investment grade (BBB- or above), recognising the need for equity injections for some GOCs over the forward estimate period. It also identified potential for equity repatriation from some other GOCs whose balance sheets had become indicative of an inefficient capital structure.

The Government has approved the following equity injections and repatriations for 2009-10:

- $60 million equity injection to SunWater Limited (SunWater)
- $50 million equity injection to the Ports Corporation of Queensland
- $380 million equity repatriation from Stanwell
- $90 million equity repatriation from Gladstone Ports Corporation.

In addition, QR is to receive an equity injection of $390 million, as part of the ongoing funding of the *South East Queensland Infrastructure Plan and Program* (SEQIPP) and Cairns Ports Limited (CPL) is to receive an equity injection of $11 million to design and construct a Cruise Terminal Facility at the existing heritage cargo sheds.

The surplus equity repatriations in 2009-10 will be used in following years to fund equity injections and/or capital investment by GOCs in approved major investment projects.

The Government will continue to review GOCs' capital structures each year in the Budget context, and may elect to make further equity adjustments reflecting changing circumstances as a result of approval of major investment projects or changes in demand or financial outlook.

IMPLEMENTATION OF GOC REFORMS

As part of the 2008-09 Mid-year Fiscal and Economic Review, the Government announced a range of reforms to the GOC sector. In 2009-10, the Government will continue to work with the 15 GOCs (including QIC) and FPQ to improve their efficiency, effectiveness and accountability. The aim has been to provide the GOCs with appropriate organisational structures and incentive frameworks to allow the GOCs to operate at their full commercial potential providing returns akin to those expected by investors in private sector companies.

Operational efficiencies and savings targets

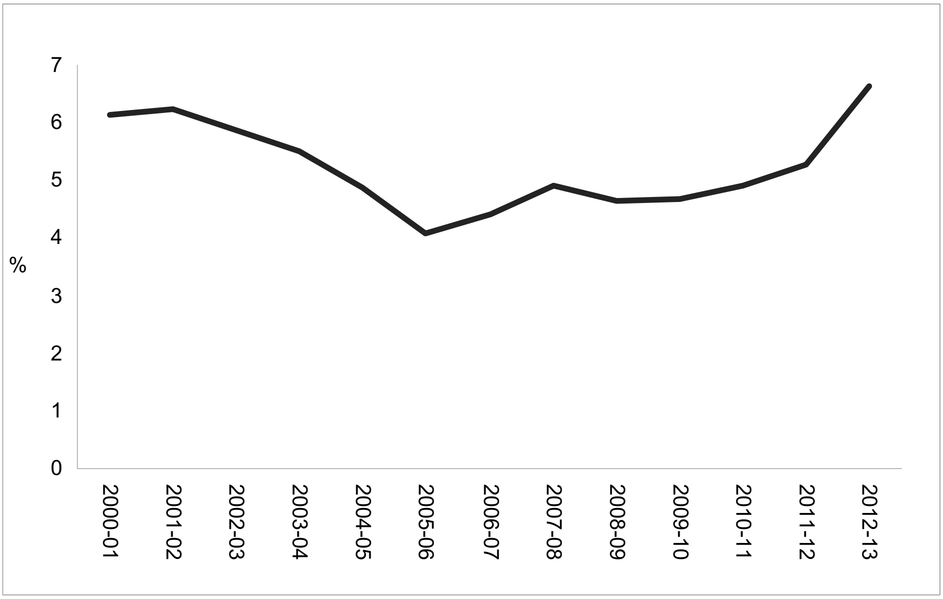
The Government is working with the GOCs to progressively increase their contributions to General Government revenue through dividends and tax equivalent payments to achieve an additional $100 million per annum by 2011-12. The 15 GOCs and FPQ have identified, and will continue to work towards identifying, operational efficiencies and productivity measures that will enhance financial performance without detracting from the quality and reliability of customer services.

Rate of return targets and investment hurdle rates

In addition, the GOCs have undertaken reviews of their weighted average cost of capital to accommodate the current financial and economic environment, and are looking to increase their minimum hurdle rates of return used in the assessment of new investments, consistent with the re-pricing of risk in financial markets.

The Government's return from its ownership of GOCs includes dividends, expected to total $872 million in 2009-10. This represents an estimated rate of return of 4.7%. As a result of Government reforms, this is expected to increase to 6.6% by 2012-13, due mainly to an increase in dividends from the transport Government-owned corporations. The anticipated increase in the expected rate of return (dividends/equity) from GOCs over the forward estimates period is reflected in Chart 5.1.

Chart 5.1
Rate of Return[1, 2]
based on dividends / average total equity, annual from 2000-01 to 2012-13



Notes:
1. Calculated as (ordinary dividends / average total equity)
2. Excludes dividends associated with asset sales and special dividends

Capital expenditure reviews

Each GOC has reviewed its capital expenditure plan to identify opportunities for optimising capital investments in light of more subdued economic activity, while ensuring the continued delivery of essential infrastructure, with the outcomes reflected in the capital expenditure forward estimates in this Budget. GOCs will continue to actively monitor their plans and more adjustments in future Budgets can be expected.

Surplus and non-core assets

All GOCs are reviewing their asset holdings to identify surplus, non-performing and non-core assets. These assets will be assessed for their potential to be more effectively managed or rationalised. Among the larger assets identified as surplus to requirements are the Glen Wilga and Haystack Road coal resources held by Tarong Energy Corporation (Tarong). Their future retention will be actively considered by the Tarong Board and Government during 2009-10. ENERGEX has also completed a review of all non-regulated businesses, commencing a process of divesting those identified as non-core. In 2008-09, ENERGEX sold ENERGEX New Zealand. During 2009-10, ENERGEX will continue this process with a number of smaller businesses and assets earmarked for sale.

This surplus GOC asset process will proceed separate to the larger asset sales program, with individual smaller assets no longer required being disposed of by the GOCs.

TRANSPORT SECTOR

The Government remains committed to the delivery of essential infrastructure and continued economic growth. In 2009-10, Queensland's transport GOCs will undertake significant investments worth $2.8 billion in port and rail infrastructure to ensure the State can take advantage of the economic recovery and respond to the expected return of demand for Queensland resources. Consistent with the broader GOC reform process outlined above, the Government in collaboration with the transport GOCs is also pursuing structural and other major reforms at an individual entity level. These measures and investments will contribute to greater efficiency in Queensland's export supply chains.

QR Limited

QR reform process

QR is implementing a significant transformation agenda to ensure it continues to grow as a leading national transport and logistics company. QR's strategy incorporates improved safety, including the Zero Harm Strategy, customer service, commercial capability and business growth. QR is expanding its business nationally and has successfully restructured the business into separate accountable business lines for its Passenger and Network operations. The reinvigoration of QR's leadership team and the development of a new business strategy to improve performance and provide sustainable growth with appropriate financial returns underpin QR's transformation agenda. QR is responding to the global financial crisis by delivering improved capital productivity across its extensive capital program, maximising returns on capital through stronger capital management and by maximising supply-chain capacity.

QR's coal business is implementing a comprehensive business improvement program to improve its overall operational performance to the satisfaction of its customers. This process includes reform to its approach to the market through continuous strategies, such as contract rate re-negotiations, improving QR's customer service model, cost efficiency programs and renegotiation of previously uncommercial terms.

To ensure QR's Regional Freight business model operates more commercially and turns around ongoing financial losses, QR has developed a reform program which will provide an equivalent or better service to customers in regional communities. The Regional Freight reforms will be implemented by QR in the context of continued employment growth within the wider QR Group, and with a view to its possible inclusion in a sale of above rail freight operations in the next three to five years, as announced by the Government on 2 June 2009.

QR's regional freight services are under growing pressure from competition as these services no longer meet community needs, with, for example, QR's rail services taking five days to move a parcel between Brisbane and Mount Isa compared to less than two days by road. QR's Regional Freight and livestock businesses are undergoing reform to more effectively meet the needs of Queensland's regional communities and to turn around ongoing financial losses.

Key rail infrastructure

QR is rolling out a $2.1 billion capital program in 2009-10 to increase the capacity of its coal and passenger networks by acquiring new rollingstock and upgrading infrastructure. QR expects demand growth to resume in all sectors it operates in over the forward estimate period, although it is likely to be at a slower pace than previously predicted for some of its businesses. While there is uncertainty around the strength of demand for the export of metallurgical coal and thermal coal in 2009-10, QR expects an increase in demand for these core export commodities to re-emerge as well as increased demand to continue for general freight, bulk commodities and passenger services.

QR's capital improvement program to secure future growth prospects for Queensland's coal industry includes expenditure of $862 million for locomotive acquisitions and overhauls, Jilalan Yard upgrade, Vermont Spur and a new wagons' program.

QR will spend $515 million in 2009-10 to upgrade infrastructure and rollingstock on the Citytrain network as part of SEQIPP. SEQIPP projects include construction of the Springfield line and the Corinda to Darra third track, the Caboolture to Beerburrum duplication and completion of the Robina to Varsity Lakes line.

Northern Missing Link/Newlands Line

QR and coal companies are currently revising the scope and costings for the GAPE project which includes the Northern Missing Link (NML), a 69 kilometre rail link between the North Goonyella and Newlands rail systems in the Bowen Basin. The GAPE project will provide mines in the Goonyella system with access to APCT. With participation from industry QR is identifying significant cost savings for the GAPE project through project scope changes, design changes, value engineering and procurement enhancements. QR remains committed to ensuring the project is delivered well in time to effectively manage future growth in coal tonnages and utilise additional capacity at the Port of Abbot Point. It is anticipated at this stage that the project will proceed to the design and construction phase in 2009-10.

Construction of the project needs to be underpinned however by appropriate commercial arrangements with coal company customers. QR has completed early works for the GAPE project, including preliminary engineering and design. However, due to the impact of the global financial crisis on coal demand, coal tonnage forecasts for the first two years of the project are 75% lower than original forecasts, which have caused QR and the industry to rethink the scope and timing of the GAPE project.

Surat & Galilee Basins

The Surat Basin Railway is a key piece of rail infrastructure that if constructed, would facilitate development of the significant coal reserves in the Surat Basin by providing a link to the Port of Gladstone. The Surat Basin Railway Joint Venture (SBRJV), comprising QR, Xstrata, and the Australian Transport and Energy Corridor, has been granted an exclusive mandate to develop the project. The Government and SBRJV are currently negotiating the arrangements that will govern the construction and operating phases of the project should financial close be successfully achieved.

With regards to the Galilee Basin, Government is seeking to identify preferred options to deliver coal infrastructure to link the Basin to the Port of Abbot Point via a dedicated rail link. As such, the Government is keen to facilitate options involving private sector investment and development of this key infrastructure. This objective will be met through the provision of an integrated solution that provides equity of access to project proponents; ensures optimal supply chain solutions are facilitated from proponents singularly or collectively; and ensures any new export supply chain infrastructure provides open access to all Galilee Basin proponents.

Port GOCs

Queensland port network restructure

In 2008, following the decision to divest its investment in airport assets in Mackay and Cairns, the Queensland Government conducted a review into the structure of the Queensland port network. Based on the review the Government approved the implementation of a five port authority framework as follows:

- Far North Queensland Ports Corporation, which is Cairns Ports Limited renamed, will have responsibility for ports north from Mourilyan with the exception of Weipa i.e. – Cairns, Mourilyan, Cooktown, Cape Flattery, Karumba, Skardon River, Thursday Island, Quintell Beach and Burketown
- Port of Townsville Limited (PTL) – will now also manage Port of Lucinda
- North Queensland Bulk Ports Corporation (NQBPC) – to be an amalgamation of existing Ports Corporation of Queensland Limited (PCQ) and Mackay Ports Limited (MPL) functions. NQBPC will manage the port of Mackay and all bulk commodity ports including Weipa, Hay Point and Abbot Point
- Gladstone Ports Corporation Limited (GPC)
- Port of Brisbane Corporation Limited (PBC).

The commencement date for the new port network structure is 1 July 2009.

Subsequent to the approval of the new ports structure, the Government announced plans to dispose of some of its assets over a three to five year period, including PBC and APCT held by PCQ. However, until PBC and APCT are sold, the new ports structure will be implemented and they will continue to operate on a business as usual basis.

The new structure of the Queensland port network will provide a more regional focus for Queensland's ports.

Key ports infrastructure

Significant growth is expected for the Port of Gladstone and Port Alma with port trade growth forecasts expected to increase from 80 million tonnes per annum (mtpa) in 2009 to 119 mtpa by 2014. To meet anticipated long term demand for coal and liquefied natural gas (LNG), significant port planning and development activities are being undertaken by GPC.

PCQ is also on course to deliver on emergent demand for Queensland commodities. PCQ's eight trading ports handle more than half of Queensland's exports (by tonnage) and total trade of 119 mt in 2007-08 is expected to increase to 155.5 mt in 2013-14.

Wiggins Island Coal Terminal

In response to future coal demand projections, a new coal terminal, Wiggins Island Coal Terminal (WICT), is proposed to be located north of the Calliope River and the RG Tanna Coal Terminal at the Port of Gladstone. It is expected that the terminal will be developed in three stages with the first stage creating additional capacity of approximately 25 mtpa, increasing to a total export capacity of approximately 70 mtpa.

In late 2008, a consortium of coal companies, the Wiggins Island Coal Export Terminal (WICET) Group, provided the Queensland Government with a private finance proposal (industry model) to develop WICT. Under the industry model, the WICET Group will finance and own the terminal at the Port of Gladstone, with GPC as operator.

On 26 November 2008, the Government provided 'preferred proponent' status to the WICET Group to proceed with the development of WICT. WICET, GPC and the Queensland Government are currently working through commercial and technical issues associated with the project and financial close is expected by mid-2010.

Abbot Point Coal Terminal expansions

The APCT expansion to 21 mtpa capacity (X21) was completed in November 2007. APCT is currently being expanded to 25 mtpa (X25) at a cost of $95 million, of which $17 million is allocated in 2009-10, with the majority of the expansion becoming operational by July 2009. Outloading works are to be completed in mid-2010. The expansion up to 50 mtpa (X50) was approved by Government in June 2008. Total estimated cost for the X50 expansion is estimated to be $818 million (inclusive of finance charges). Budgeted expenditure in 2009-10 is $287.9 million.

PCQ remains on schedule to deliver X50 by 2011. Expansion of the APCT beyond X25 is dependent upon coal companies' commitment to QR's construction of NML, which forms part of the GAPE project.

PCQ's 2008 Master Plan details the scope, preliminary budget and project timeframes for the proposed 80 mtpa to 110 mtpa expansion (X80/X110) of the APCT. PCQ has anticipated that expansion to a capacity of X80 could be achieved by mid 2013 and to X110 by mid 2017 should the coal companies commit to additional export capacity.

In 2009-10, $23.5 million has also been allocated for renewal of stacker reclaimers at APCT, with a total cost of $68.3 million and an expected completion date of 2011.

Liquefied natural gas proposals

Curtis Island has been identified as a suitable location for large-scale LNG processing facilities to take advantage of Queensland's coal seam gas reserves. Analysis indicates the export capacity for LNG at Gladstone could be up to 15 mtpa in the medium term, driven by forecast strong demand in Asian markets. Several LNG proponents are currently investigating the development of production facilities at the Port of Gladstone.

Development of the LNG industry in Gladstone will be guided by the preparation of a Master Plan for the LNG precinct on Curtis Island, initiated by the Department of Infrastructure and Planning. This Master Plan will guide the development of the LNG precinct, including the provision of common user infrastructure such as roads, bridges, water and power distribution networks and pipeline corridors.

As announced in the 2009 State Election, the Government will provide $30 million over two years to fund the purchase of land for a Callide to Gladstone 'gas super-highway'. The land will create a corridor between Callide and the Gladstone State Development Area to accommodate co-location of the LNG pipelines to Curtis Island.

The Government will assist in planning, facilitating and coordinating the delivery of this infrastructure in conjunction with the development of co-located and shared facilities by LNG proponents to minimise the costs to be borne by LNG proponents from infrastructure development, in addition to ensuring the efficient usage of available land.

Investigations into channel upgrades and dredging of the Port of Gladstone, including the required funding from industry for its facilitation, will be progressed by GPC and its customers in conjunction with Government departments.

Port of Brisbane Corporation Limited

PBC is investing $536.5 million over five years for new wharves 11 and 12 and establishing associated land works at Fisherman Islands. Construction works for the new wharves continue to be ahead of schedule with the timing of the opening of the associated terminals 11 and 12 set for June 2012 and June 2014 respectively. The new wharves will increase Brisbane's container-handling facility by 25% and take the number of dedicated container wharves at the port to nine.

Hutchison Port Holdings (HPH), one of the world's leading port investors, developers and operators, has entered into an agreement to lease the new container wharves and will became the third stevedore operating in Brisbane. HPH will undertake and fund the development of container terminal facilities for the new wharves.

Additional ports infrastructure

In 2009-10, $108.6 million is allocated for capital works by GPC at RG Tanna coal terminal, general road rebuilding, land reclamation, mobile plant placements and modification of shiploading facilities at Auckland Point.

PCQ has allocated $1.6 million in 2009-10 to continue studies into the development of a multi-cargo facility at Abbot Point. An additional $348.2 million in 2009-10 has also been allocated for port expansion and development at locations including Abbot Point, Louisa Creek, Mourilyan and Thursday Island. This investment will improve the capacity of PCQ's ports and meet market growth. Preliminary expenditure is allocated for investigations into the Abbot Point multi-cargo facility.

Design of the Wallace Creek Bridge at the Port of Bundaberg was completed by PBC in December 2008. The $7.7 million bridge, which will provide a link to Burnett Heads, is funded by PBC, the Australian Government and Bundaberg Regional Council. The project is expected to be completed in early 2009-10.

In 2007 the PTL completed the Port of Townsville Master Plan, a key initiative to guide the development and operation of the Port over a 25 year horizon. In 2009-10 the PTL has allocated $11 million for port development and port infrastructure.

Queensland Motorways Limited

During 2009-10 QML will continue to progress the delivery of two major projects in accordance with the requirements of the Road Franchise Agreement established in July 2006.

In February 2008, the then Minister for Main Roads and Local Government announced the Queensland Government's decision to simultaneously introduce free-flow or cashless tolling on the Gateway and Logan Motorways in mid 2009. In response, QML, following a competitive tender process, appointed two leading international technology providers, Thales and IBM, to design, build and implement roadside and back-office systems to support free-flow tolling.

The project is on target to be delivered in two phases: full implementation of free-flow tolling on the Logan Motorway and existing Gateway Bridge in July 2009, with phase two to incorporate the new duplicate Gateway Bridge when it opens in mid-2010.

QML will spend a total of $43.6 million on the free-flow tolling project in 2009-10. The total cost of the project, incorporating systems design, build and implementation, gantry design and construction, and civil works will be in the order of $171.7 million.

The construction of the Gateway Upgrade Project will progress towards completion during 2009-10 and is on target for completion in early 2011.

During 2009-10 two significant components of the project will be completed and be opened to traffic: the northern deviation in July 2009, with the new Gateway Bridge expected late in the financial year. The opening of these two sections will have a significant positive impact on traffic congestion.

QML will spend $259.2 million on the Gateway Upgrade Project in 2009-10. The total project cost will be contained within the budget of $1.883 billion. A further $43.6 million is allocated towards the implementation of free-flow tolling.

ENERGY SECTOR

Impact of the Carbon Pollution Reduction Scheme

The introduction by the Australian Government of the proposed Carbon Pollution Reduction Scheme (CPRS) is likely to lead to falls in the asset values of coal-fired generators, including the black coal electricity generators owned by Queensland's GOCs.

This result has been found in several recent modelling studies including consultancies commissioned by the Australian Treasury (ROAM Consulting and ACIL Tasman) and by the Council for Australian Federation (Access Economics).

Under the CPRS, coal fired generators will find it difficult to pass on to customers all of their carbon permit costs and will generate lower volumes. As a result their earnings are likely to decrease.

The Queensland Government will undertake specific modelling of the impact of the CPRS on Queensland’s energy market and electricity generator GOCs when the Australian Government’s CPRS legislation is passed.

The Queensland Government estimates that its State-owned generators may receive approximately $53 million (of the total estimated compensation for Queensland black coal generators outlined on page 60 of chapter 4) of the total Electricity Sector Adjustment Scheme (ESAS) compensation of $3.5 billion proposed by the Australian Government. Having regard to the losses estimated in the modelling studies referred to above, it is likely that the State's losses will be significantly higher than the compensation offered under the ESAS.

Investment – energy

The Government will continue to invest in transmission and distribution infrastructure across the State, to ensure that demand growth and peak demand will be met. Importantly, a significant proportion of network expenditure is incurred to meet peak demand which occurs on only a few days per year. Demand growth in Queensland is being largely driven by population growth and increased consumer uptake of consumer lifestyle appliances such as air conditioning.

ENERGEX Limited (ENERGEX) and Ergon Energy Corporation Limited (Ergon) are reaching the end of their current regulatory period under the Queensland Competition Authority (QCA), and a new regulatory pricing determination will be made by the Australian Energy Regulator (AER) for the new five year regulatory period from 1 July 2010.

Transmission infrastructure and augmentation will be strengthened with Powerlink investing $610.4 million in 2009-10. Distribution infrastructure and augmentation will also be strengthened through ENERGEX and Ergon investing a total of $2.1 billion in 2009-10. This investment will ensure that the State maintains reliable and secure transmission and distribution electricity networks. Demand side management will be essential for reducing future pressure on transmission and distribution network expenditure, and helping to lower retail prices for customers in the long run.

The State Government-owned generators are moving to reinvigorate and improve their focus on the maintenance and efficient operation of generation assets, as reflected in their capital investment plans for 2009-10.

There has been a history of private sector participation in the State's energy sector. The private sector currently owns and controls 30% of total generation capacity within the State, which will increase to 35% in 2009-10 with the commissioning of four new gas-fired plants currently under construction. In 2009-10, privately-developed and operated gas-fired generation will add an additional 1,055 megawatts of capacity to the State's electricity supply. These plants will be progressively commissioned at Mt Stuart, Darling Downs, Condamine and Yarwun.

The Government is currently undertaking a review of the structure and preparedness of the GOC Generators to meet the new challenges facing these businesses particularly in respect of the impending CPRS and competition from large vertically integrated retailers.

The review will consider the GOC generators' position as the dominant provider of electricity, particularly coal-fired base load capacity, in the Queensland market with a view to reducing the State's share of owned and controlled generation capacity from the current 70% to around 50%.

The target of 50% will be progressively achieved primarily as a result of new capacity requirements being met by the private sector, expected to consist largely of gas-fired generation.

North West Queensland Energy Review

During 2008-09 the Government and the Queensland Resources Council jointly commissioned an independent review of energy delivery in the North West Queensland Minerals Province.

The North West Queensland Minerals Province, predominately the area centred around Mount Isa and Cloncurry, is host to a number of operating mines with production valued at $6.6 billion in 2006-07 and has a number of mining operations that have been identified to commence within the region over the next five years. The region currently sources its electricity needs from CS Energy's gas-fired Mica Creek Power Station, Xstrata PLC's gas-fired power station and a number of small mine-based generator units. None of these power stations are connected to the national electricity grid.

The outcomes of the Review will point to a pathway forward for the most efficient augmentation to the North-West's power supply.

Ergon franchise load

Ergon Energy Queensland Limited (EEQ), a wholly owned subsidiary of Ergon, provides electricity retail services to around 650,000 non-market customers across regional Queensland.

The Government is committed to ensuring that Queenslanders, regardless of where they live in the State, should have access to affordable electricity supply. The Government provides a maximum uniform tariff across Queensland in order to ensure Queenslanders are not disadvantaged by the higher cost of supplying electricity in regional areas. Higher costs are driven by greater network costs due to locational distances and higher loss factors.

This policy is supported by CSO payments by the Government to EEQ, which in 2009-10 is budgeted to be $333.5 million. The Government also provides a range of concessions to eligible persons to reduce the cost of their electricity bills.

Australian Energy Regulator

Responsibility for the economic regulation of Queensland's electricity distribution networks has transferred from the Queensland jurisdictional regulator, the QCA, to the AER. The AER will be responsible for regulatory pricing determinations following the expiry of the current pricing determinations on 30 June 2010.

As required under the National Electricity Rules, ENERGEX and Ergon are providing detailed regulatory proposals to the AER for consideration. The AER will make the distribution determination for the period from 1 July 2010 to 30 June 2015. The outcome of the AER's distribution determination should be published by 30 April 2010. Queensland has experienced rapid growth in electricity demand in recent years, driven to a large extent by increases in population, economic activity and use of lifestyle enhancing appliances such as air conditioners.

WATER SECTOR

SunWater Regional Water Projects

SunWater, in conjunction with Queensland Government departments, continues to develop business cases for the Regional Water Projects. The objective of these projects is to improve regional water security to facilitate economic growth, overcome institutional impediments to development and ensure an optimal use of capital and capacity.

SunWater is also continuing to progress the investigations of the underlying Projects in accordance with the Government's decisions relating to Connors River Dam and Pipelines, Nathan Dam and Pipelines, Fitzroy Weirs (with Gladstone Area Water Board) and Water for Bowen.

In addition to the program of works under the Regional Water Projects, SunWater is also undertaking studies for the Burdekin Falls Dam raising, Glebe Weir Raising and Bowen Basin Water Service Framework. In July 2009 SunWater will begin construction of the $42.6 million Cloncurry Supply Pipeline project that will provide long term water security for the region.

State Water Entities

The Queensland Government is currently undertaking fundamental reform of the water supply industry in South East Queensland. The key elements of this reform process include:

- the construction of the $9 billion SEQ Water Grid, establishing interconnection of key supply and demand zones in the region and significant climate-resilient sources of supply, including desalination and recycled water
- the structural consolidation of the fragmented water supply industry in SEQ, which prior to the reform process included 25 different water service providers, including 21 bulk water assets owned by 12 different bodies with 17 water retailers. The future industry structure will significantly rationalise these arrangements, and better enable the new SEQ Water Grid Manager to coordinate efficient water distribution across the region
- significant regulatory reform intended to provide more transparent and effective frameworks for:
  - economic regulation and pricing to incentivise efficient demand outcomes
  - planning and development regulation, promoting economic efficiency and total water cycle management
  - asset management regulation, promoting active, whole-of-life asset management.

The passage of the *South East Queensland Water (Restructuring) Act 2007* (the Restructuring Act) in November 2007 set the framework to facilitate bulk water supply and transport business restructure. Under the new institutional arrangements, the State – via three new statutory authorities – has assumed control and operational responsibility of the larger bulk water assets that hold, manufacture and distribute bulk water in the SEQ region.

From 1 July 2008, water sources such as dams, weirs and aquifers were aggregated into the Queensland Bulk Water Supply Authority (trading as SEQWater). The Queensland Bulk Water Transport Authority (trading as LinkWater) assumed ownership of major water transport infrastructure, including that previously owned by councils and assets being constructed by the State as part of the SEQ Water Grid. The Queensland Manufactured Water Authority (trading as WaterSecure) was also established to own and operate the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant on commissioning completion. Each of the new authorities conducts its affairs on a commercial basis.

The Restructuring Act also provided for the creation of a State-owned SEQ Water Grid Manager, established to manage contracts with the bulk supply and transport entities and the retailers, and to manage the equitable distribution of water across the SEQ Water Grid and allowing for the sharing of costs. The Water Grid Manager purchases the services of SEQWater, LinkWater and WaterSecure and sells water to retailers and power stations.

The next stage of the institutional reforms involves the functional separation of water distribution and retail activities from individual SEQ councils, and the establishment of a new structural and regulatory framework to govern the delivery of retail and distribution services in SEQ. The new arrangements will create greater regional synergy in service delivery, planning and service standards, and improved economic regulation. The businesses delivering water retail and distribution will continue to be owned by local governments.

To meet current and future water supply needs in SEQ, the Government is continuing construction of the Water Grid, ensuring climate-resilient supply arrangements and allowing water to be moved around the region to meet demand in the areas of highest need.

A total of $332.5 million will be spent on bulk transport infrastructure in 2009-10. Of this, $211.5 million is budgeted for the Northern Pipeline Interconnector Stage 2. This pipeline will extend from Landers Shute water treatment plant at Eudlo to Cooroy on the Sunshine Coast, and facilitate the integration of Sunshine Coast Regional Council into the SEQ Water Grid. Subject to the project receiving State and Federal Government approvals, construction is due to commence in the second half of 2009, to be completed in 2011-12 in line with the *Water Amendment Regulation (No. 2) 2008*. Longer-term planning is for the pipeline to deliver water from future northern water storages such as Traveston Crossing Dam or northern desalination sources.

In addition, $121 million will be spent in 2009-10 on the 38 km Toowoomba pipeline, which is forecast to be operational by January 2010. This pipeline links Wivenhoe Dam to Toowoomba's Cressbrook Dam and is planned to provide water security to the Toowoomba region.

The Government-owned special-purpose vehicle construction company Queensland Water Infrastructure Pty Ltd (QWI) is progressing with land acquisitions and pre-construction activities relating to the $348 million Wyalarong Dam on Teviot Brook, which is scheduled for completion in 2011. The Dam will provide an additional 26,000ML per annum of water when operated with the recently completed Cedar Grove and the Bromelton Offstream Storage.

QWI has also commenced preliminary planning and design activities, including land acquisitions, relating to the $1.6 billion Traveston Crossing Dam. However, as outlined in the Mid Year Fiscal and Economic Review, a number of environmental mitigation measures are required prior to commencing construction of the Traveston Crossing Dam. These measures are designed to protect vulnerable species and minimise the impact on flora and fauna. The Government remains committed to the Dam, but it is expected that developing and proving the effectiveness of environmental measures will result in a delay in construction of several years. The Dam is now scheduled for completion in 2016-17.

Construction of the Western Corridor Recycled Water Project – the largest recycled water project in the Southern Hemisphere - will be finalised in 2009-10, with $130.7 million budgeted to complete the water supply network. The project is diversifying SEQ water resources by producing purified recycled water that meets the Australian Drinking Water Guidelines.

In addition, final commissioning of the Gold Coast Desalination Plant at Tugun is expected to be completed in late 2009, delivering drinking water directly to the SEQ Water Grid at a total project cost of $942 million (excluding network integration works). The delivery strategy for the Cedar Grove water treatment plant and connecting infrastructure will also be finalised in 2009-10, with planning work to be undertaken by SEQWater.

FORESTRY

The Government will continue the expansion of its hardwood sawlog plantations consistent with its commitment under the Western Hardwoods Region Plan to make available 20,000 hectares of hardwood sawlog. In the event the hardwood plantations are included in the divestment of FPQ, the Government will oblige the acquiring party to honour the obligations under the Western Hardwoods Region Plan.

Pending the sale, FPQ will continue to progress commercial reforms to improve operations, long term sustainability and competitiveness of the Queensland plantation timber industry.