



**Consideration of Auditor-General
Report 6: 2019-20—*Energy: 2018-19*
*results of financial audits***

**Report No. 48, 56th Parliament
State Development, Natural Resources and
Agricultural Industry Development Committee
March 2020**

State Development, Natural Resources and Agricultural Industry Development Committee

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Abbreviations

AER	Australian Energy Regulator
Auditor-General's report	<i>Energy: 2018-19 results of financial audits (Report 6: 2019-20)</i>
CleanCo Queensland	CleanCo Queensland Limited
CS Energy	CS Energy Limited
Energex	Energex Ltd (subsidiary of Energy Queensland Limited)
Energy Queensland	Energy Queensland Limited
Ergon	Ergon Energy Corporation Ltd (subsidiary of Energy Queensland Limited)
Ergon Energy Queensland	Ergon Energy Queensland Pty Ltd (subsidiary of Energy Queensland Limited)
GOC	government owned corporation
LSA	<i>Legislative Standards Act 1992</i>
Powerlink	Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)
QAO	Queensland Audit Office
RIN	Regulatory information notices
Stanwell	Stanwell Corporation Limited

Chair's foreword

This report presents a summary of the State Development, Natural Resources and Agricultural Industry Development Committee's examination of the Auditor-General's report, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*.

The committee's task was to consider the Auditor-General's findings in relation to its financial audits of entities in the energy sector in Queensland.

The Queensland Audit Office audit found that energy entities' controls over financial systems and processes are reliable. While the Queensland Audit Office did not find any significant issues relating to controls, it made 12 recommendations to the entities for strengthening their controls, mostly relating to their information systems.

The committee reviewed the report and discussed its conclusions and recommendations with the Auditor-General.

On behalf of the committee, I thank the Auditor-General and the Queensland Audit Office for their assistance with the committee's examination of this report.

I commend this report to the House.



Chris Whiting MP

Chair

Recommendation

The committee recommends that the Legislative Assembly note this report.

1 Introduction

1.1 Role of the committee

The State Development, Natural Resources and Agricultural Industry Development Committee (committee) is a portfolio committee of the Legislative Assembly which commenced on 15 February 2018 under the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly.¹

The committee's areas of portfolio responsibility are:

- State Development, Manufacturing, Infrastructure and Planning
- Natural Resources, Mines and Energy, and
- Agricultural Industry Development and Fisheries.

Pursuant to s 94(1)(a) of the *Parliament of Queensland Act 2001*, the committee has responsibility within its portfolio areas for the assessment of the integrity, economy, efficiency and effectiveness of government financial management by:

- examining government financial documents, and
- considering the annual and other reports of the Auditor-General.

1.2 Role of the Auditor-General

The role of the Auditor-General is to provide the Legislative Assembly with independent assurance of public sector accountability and performance. This is achieved through reporting to the Legislative Assembly on the results of its financial and performance audits.

A financial audit assesses whether the information contained in the financial statements of public sector entities is accurate, can be relied upon and is prepared in accordance with Australian Accounting Standards and relevant legislative requirements.²

The Auditor-General's report titled *Energy: 2018-19 results of financial audits (Report 6: 2019-20)* (Auditor-General's report) was prepared under Part 3 Division 3 of the *Auditor-General Act 2009* and was tabled in the Legislative Assembly in accordance with s 67 of that Act.

1.3 Referral of the Auditor-General's Report

Standing Order 194B provides that the Committee of the Legislative Assembly shall as soon as practicable after a report of the Auditor-General is tabled in the Legislative Assembly, refer that report to the relevant portfolio committee for consideration.

A portfolio committee may deal with this type of referral by considering and reporting on the matter and making recommendations about it to the Legislative Assembly.³

On 21 November 2019, the Auditor-General's report was tabled and on 28 November 2019 it was referred to the committee for consideration and report.

1.4 Examination process

On 17 February 2020, the committee held a public briefing on the Auditor-General's report and heard from the Auditor-General and officers from the Queensland Audit Office (QAO). See Appendix A for a list of witnesses. A copy of the transcript is available on the committee's webpage.⁴

¹ *Parliament of Queensland Act 2001*, section 88 and Standing Order 194.

² Queensland Audit Office Practice Statement – Financial statement audit, p 1.

³ *Parliament of Queensland Act 2001*, s 92(3).

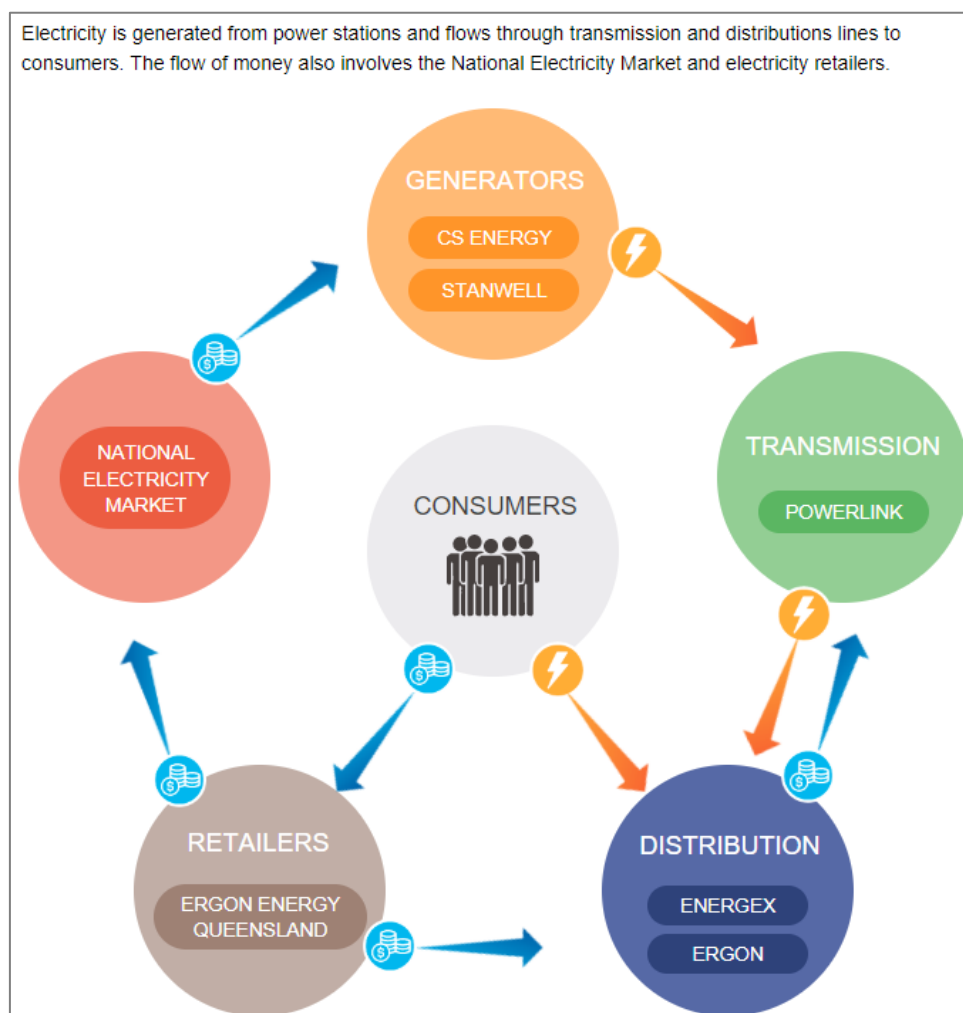
⁴ <https://www.parliament.qld.gov.au/work-of-committees/committees/SDNRAIDC/inquiries/current-inquiries/AG6Energy2019-20>

2 Examination of the Auditor-General's Report

2.1 Background

In Queensland, state government owned corporations (GOCs) generate, transmit, and distribute most of the state's electricity. Electricity retailing outside of South East Queensland is also largely state owned. Figure 1 shows the state owned entities' roles in the Queensland energy sector supply chain.

Figure 1: The electricity supply chain



Source: Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 3.

The Auditor-General's report summarises the results of the financial audits of the Queensland Government's energy entities, including:

- CleanCo Queensland Limited
- CS Energy Limited
- Energy Queensland Limited (including the results of Ergon Energy Queensland)⁵
- Queensland Electricity Transmission Corporation (trading as Powerlink Queensland)
- Stanwell Corporation Limited.⁶

⁵ In addition to government owned corporations, the energy sector includes controlled public sector entities. Ergon Energy Queensland Pty Ltd is the only one of these entities that prepares financial statements; see Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, pp 5, 33.

⁶ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 25.

The energy entities prepare their financial statements in accordance with the legislative frameworks and reporting deadlines shown in Figure 2.

Figure 2: Legislative frameworks for the energy sector

Entity type	Entity	Legislative framework	Legislated deadline
Government owned corporations (GOC)	• CleanCo Queensland Limited	• <i>Government Owned Corporations Act 1993</i>	31 August 2019
	• CS Energy Limited	• <i>Corporations Act 2001</i>	
	• Energy Queensland Limited	• Corporations Regulations 2001	
	• Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)		
	• Stanwell Corporation Limited		
Controlled entities	Ergon Energy Queensland Pty Ltd	• <i>Corporations Act 2001</i> • Corporations Regulation 2001	31 October 2019

Source: Queensland Audit Office, Energy: 2018-19 results of financial audits (Report 6: 2019-20), p 26.

2.2 Audit conclusions

The QAO provided unmodified audit opinions on the financial statements for 2018-19 for all energy sector entities. It also provided assurance over the Regulatory Information Notices (RIN) that Energex and Ergon provide to the Australian Energy Regulator (AER). The RIN enable network entities to monitor their outcomes against current and future determinations of the AER which affect how much income they can earn.

An unmodified audit opinion means that the financial statements of the examined energy entities were prepared in accordance with legislative requirements and Australian accounting standards, and that readers can rely on the financial statements.

In its sector analysis, the QAO identified an action point for energy entities to resolve accounting issues early, as the complexity of accounting issues increase alongside the frequency of non-standard contracts and transactions. The QAO noted that ‘the timeliness and quality of financial statements improved from last year due to the earlier resolution of accounting issues’.⁷

The QAO also examined the effectiveness of the internal controls of energy entities to ensure they were suitably designed to prevent, or detect and correct, material misstatements in the financial report. The QAO did not identify any significant control deficiencies (high risk matters) in the energy sector’s internal controls and stated that energy entities have solid financial positions as well as reliable controls over financial systems and processes. However, the QAO identified an increased number of control deficiencies (low to moderate risk matters) across the sector. Nine of the twelve control deficiencies identified were related to information technology system security and limitations, particularly in terms of vulnerabilities to cybersecurity threats,⁸ and according to the QAO, the energy entities are working to resolve these issues.⁹

⁷ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 6.

⁸ Public briefing transcript, Brisbane, 17 February 2020, pp 12-13.

⁹ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 5.

2.2.1 Financial performance of energy entities

As part of its analysis of entities' financial statements, the Auditor-General's report sets out a financial snapshot of the Queensland energy sector in 2018-19, which shows assets of \$35.3 billion (an increase of 0.7 per cent from 2017-18) and a net profit for the sector of \$1.67 billion (a 2 per cent decrease from 2017-18).¹⁰

The QAO found that:

Despite wholesale electricity prices in Queensland continuing to be the lowest in Australia, all entities remain profitable. The sector posted a net profit of \$1.7 billion, down two per cent on last year. This allowed the sector to return \$2.2 billion to the state government, made up of \$1.5 billion in dividends and \$713.8 million in state taxes.

The state government gave back \$1.07 billion to consumers in the form of rebates and subsidies. This included funding to support the additional cost of supplying electricity to regional Queensland.

Generators' profitability continued to grow, due to increased wholesale electricity prices and diversification of their operations. They contributed \$895.2 million in net profits in 2018–19.¹¹

Lower profits were principally as a result of 'the decisions of the Australian Energy Regulator to reduce the amount of revenue that energy transmission and distribution businesses can earn'.¹²

2.3 Future challenges

The Auditor-General's report identified the following areas of challenge for energy entities:

- significant ongoing investment is required to maintain, update, or replace the existing asset base
- the lack of clear national policies to support an orderly transition from coal to renewable energy
- the forecast decline of coal and the growth in renewable energy is likely to impact on the government-owned generators' ability to maintain high levels of profitability in future financial years
- weather dependent energy sources makes managing supply more difficult.¹³

These areas of emerging risk are likely to have impacts upon the financial performance of energy entities in the future.¹⁴

The QAO noted that electricity from coal will decrease over the next 20 years and 'electricity from solar is expected to grow to 46 per cent of the generation mix over the next 20 years', as a result of factors such as the declining cost of renewables, closure of coal-fired power stations as they reach the end of their technical lives, and renewable energy targets.¹⁵

The Auditor-General's report describes the need for continual investment by energy entities in power station overhauls to ensure the reliable and efficient operation, and in transmission assets such as lines and substations.¹⁶ In addition, network entities may need to invest more to connect geographically

¹⁰ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 11.

¹¹ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 12.

¹² Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 1.

¹³ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 1.

¹⁴ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 2.

¹⁵ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 21.

¹⁶ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 19.

widespread renewable energy sources into the energy grid and integrate them into a reliable electricity system.¹⁷ The report states that in 2018-19:

Powerlink and Energy Queensland (the network entities) connected 34 large-scale solar farms and one wind farm to the grid, with total generation capacity of 1,645 MW. (This is almost as much capacity as the Gladstone Power Station, the largest coal-fired power station in Queensland, with a generation capacity of 1,680 MW.)¹⁸

In relation to the possible risk to entities' incomes from the shift to renewables, and from adjustments such as the transfer of the renewable and low-emission generation assets of CS Energy and Stanwell to CleanCo in October 2019, the Auditor-General advised:

I think over time those risks could increase if they do not diversify their income base. We mentioned that the generators have increased revenue from non-traditional sources. If they do not do that, that will restrict their financial performance because they will have this asset which has a limited life and no new revenue sources.¹⁹

The Auditor-General's report also notes that 'without adequate investment, the networks may not be able to withstand fluctuations in demand caused by extreme weather conditions'.²⁰ Mr Olive from the QAO advised the committee:

... it is about trying to maintain a reliable and secure supply of electricity. Obviously, climatic events can physically damage and interfere with the assets, requiring maintenance or replacement. Like severe weather events in terms of heat, obviously they are key drivers in increasing demand and the reason behind seeing peak demand. I think it is about the third or fourth year in a row that the peak demand on any one day has increased year on year.²¹

With regard to the impact of the lack of clear national policies on investment decisions in the energy sector, the Auditor-General noted that while the QAO reports on energy entities within the state, the state cannot and does not operate in isolation from the national system.²² As Mr Olive from the QAO explained:

... Queensland operates as part of the National Electricity Market, which is the eastern seaboard states including Tasmania and South Australia. Not having a national policy to try to overarch each of the state based strategies and policies around energy does potentially have an impact in terms of pricing and competition. Investment in energy is a long-term and expensive investment, so it can have an impact for investment decisions for the private sector.²³

The Auditor-General stated that the challenges for energy entities derive from the changing nature of the electricity network, which is resulting from the growth in renewable energy sources and the retirement of coal-fired power stations over time; the potential impacts of technological advances such as home batteries for storage of rooftop solar generation; issues arising from time of day and weather dependent energy sources; and the effects of extreme weather conditions and changing climate patterns on demand.²⁴

¹⁷ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 23.

¹⁸ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 23.

¹⁹ Public briefing transcript, Brisbane, 17 February 2020, p 11.

²⁰ Queensland Audit Office, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*, p 23.

²¹ Public briefing transcript, Brisbane, 17 February 2020, p 14.

²² Public briefing transcript, Brisbane, 17 February 2020, p 9.

²³ Public briefing transcript, Brisbane, 17 February 2020, p 9.

²⁴ Public briefing transcript, Brisbane, 17 February 2020, pp 13, 14, 15.

The Auditor-General, Mr Worrall, advised the committee:

I think the challenge for industry is that the transition is orderly as coal-fired power stations are decommissioned, that there are sufficient other electricity sources to replace them.

... the other challenge is that the pattern of consumption is changing. There is not as much peak consumption in the day as there is in the night-time. I think the other observation we make in the report is that at the moment we have large pieces of infrastructure in different places around the state, whereas over time we are going to end up with a lot more smaller pieces of infrastructure coming into the network, and that may also pose challenges.²⁵

3 Committee recommendation

The committee commends the Auditor-General for the report, *Energy: 2018-19 results of financial audits (Report 6: 2019-20)*.

The committee recommends that the Legislative Assembly note the contents of this report.

²⁵ Public briefing transcript, Brisbane, 17 February 2020, p 13.

Appendix A – Officials at public briefing on 17 February 2020

Queensland Audit Office

- Mr Brendan Worrall, Auditor-General
- Mr Patrick Flemming, Assistant Auditor-General
- Mr Damon Olive, Assistant Auditor-General