

Examination of Auditor-General Report No 11: 2020-21 - Energy 2020

Report No. 6, 57th Parliament
Transport and Resources Committee
June 2021

Transport and Resources Committee

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Acknowledgements

All web address references are current at the time of publishing. Please note that all in-text references have been removed. Refer to original source for more information.

Contents

| | |
|--|------------|
| Abbreviations | ii |
| Chair’s foreword | iii |
| Recommendations | iv |
| 1 Introduction | 1 |
| 1.1 Role of the committee | 1 |
| 1.2 Role of the Auditor-General | 1 |
| 1.3 Referral of the Auditor-General Report | 1 |
| 1.4 Examination process | 1 |
| 1.5 Committee conclusions and recommendation | 2 |
| 2 Examination of the Auditor-General Report | 3 |
| 2.1 Audit rationale | 3 |
| 2.2 Audit background | 4 |
| 2.3 Audit findings | 5 |
| 2.3.1 Audit opinions | 5 |
| 2.3.2 Deficiencies | 7 |
| 2.3.3 Sector performance | 9 |
| 2.3.4 Challenges for the energy sector | 10 |
| 2.4 QAO recommendations | 14 |
| 2.5 Agency responses to the Auditor-General Report | 14 |
| 2.6 Committee comments | 15 |
| Appendix A – Officials at public briefing on 19 April 2021 | 16 |
| Appendix B – Agency responses to the Auditor-General Report | 17 |

Abbreviations

| | |
|------------------------|---|
| AAS | Australian Accounting Standards |
| AER | Australian Energy Regulator |
| ASIC | Australian Securities and Investments Commission |
| Auditor-General Report | Auditor-General Report No 11: 2020-21 - Energy 2020 |
| the committee/TRC | Transport and Resources Committee |
| GOCs | government owned corporations |
| MW | megawatts |
| QAO | Queensland Audit Office |

Chair's foreword

This report presents a summary of the Transport and Resources Committee's examination of the Auditor-General Report No. 11: 2020-21 – Energy 2020.

The committee's task was to consider the Auditor-General's findings in relation to the Auditor-General's Report. The committee is satisfied that the energy agencies have taken appropriate action to address the Auditor-General's recommendations. The committee has recommended that the Legislative Assembly note the contents of this report.

On behalf of the committee, I thank the Queensland Audit Office for its assistance with the committee's examination.

I commend this report to the House.

A handwritten signature in black ink that reads "Shane King". The signature is written in a cursive, slightly slanted style.

Shane King MP

Chair

Recommendations

Recommendation 1

2

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

1 Introduction

1.1 Role of the committee

The Transport and Resources Committee (committee) is a portfolio committee of the Legislative Assembly which commenced on 26 November 2020 under the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly.¹

The committee's primary areas of responsibility are:

- Transport and Main Roads
- Energy, Renewables, Hydrogen, Public Works and Procurement
- Resources.

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
- considering the annual and other reports of the Auditor-General.²

1.2 Role of the Auditor-General

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

Auditor-General Report No. 11: 2020-21 - Energy 2020 (Auditor-General Report) was prepared under Part 3 Division 3 of the *Auditor-General Act 2009* and was tabled in the Legislative Assembly in accordance with section 67 of that Act on 4 February 2021. This report presents the results of the QAO's financial audit.

1.3 Referral of the Auditor-General Report

Standing Order 194B provides the Committee of the Legislative Assembly shall as soon as practicable after a report of the Auditor-General is tabled in the Assembly, refer that report to the relevant portfolio committee for consideration. The Auditor-General Report was referred to the committee on 25 February 2021.

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

1.4 Examination process

The committee wrote to the Queensland Audit Office (QAO) seeking further information regarding agency responses to recommendations. The committee also received a public briefing from the QAO on 19 April 2021. See Appendix A of this report for a list of witnesses. A copy of the transcript can be accessed on the committee's webpage.

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

² *Parliament of Queensland Act 2001*, s 94(1)(a).

1.5 Committee conclusions and recommendation

The committee is satisfied that the energy agencies have taken appropriate action to address the Auditor-General's recommendations.

Recommendation 1

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

2 Examination of the Auditor-General Report

2.1 Audit rationale

Section 40 of the *Auditor-General Act 2009* requires that the Auditor-General must audit the annual financial statements of a public sector entity and prepare an auditor's report about the financial statements. The Auditor-General's report must state whether the Auditor-General has received all the information and explanations required and the Auditor-General considers the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects.³

Section 34 of the *Auditor-General Act 2009* requires that the shareholders of a company that is a public sector entity must appoint the Auditor-General to be the auditor of the company and ensure that the Auditor-General remains, at all times, the auditor of the company while the company remains a public sector entity.⁴

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 (AAS) and relevant legislative requirements.⁵

The Auditor-General Report summarises the financial audit results of Queensland's six state-owned energy entities. These entities are as follows:

- CleanCo
- CS Energy
- Stanwell
- Powerlink
- Energy Queensland, and
- Ergon Energy.

These corporations generate, transmit, and distribute most of the state's electricity. Diagram 1 below depicts the role each of these entities play in the Queensland energy sector supply chain.

³ *Auditor-General Act 2009*, s 40.

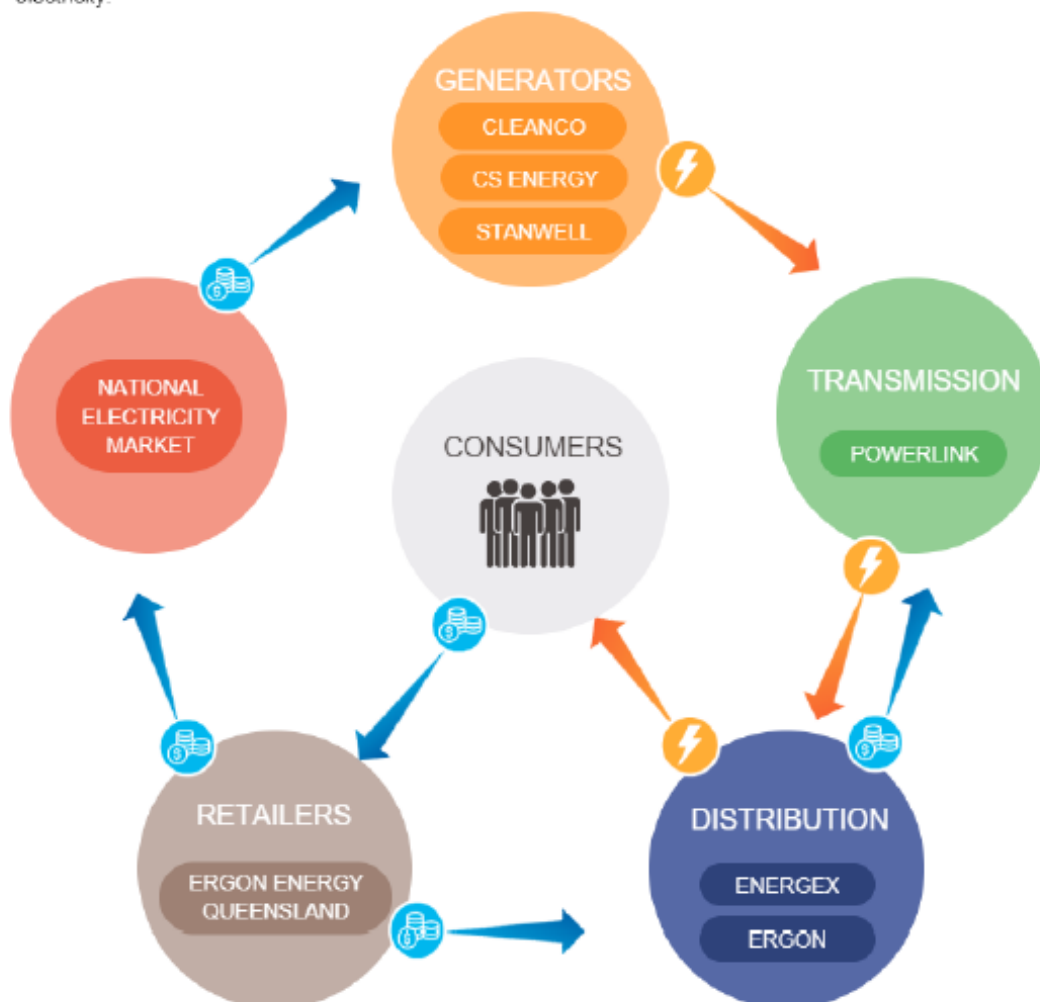
⁴ *Auditor-General Act 2009*, s 34.

⁵ Queensland Audit Office Practice Statement – Financial statement audit, p 1.

Diagram 1: Role of state owned energy entities in electricity supply chain

The electricity supply chain

Electricity is generated from power stations and flows through transmission and distribution lines to consumers. Electricity retailers and the National Electricity Market are also involved in the sale of the electricity.



Note:

- The National Electricity Market is the cross-state wholesale electricity market where generators and retailers trade electricity. Stanwell and CS Energy also participate in the retail market.
- Energex, Ergon, and Ergon Energy Queensland are subsidiaries of Energy Queensland Limited.

Source: Compiled by Queensland Audit Office.

Source: Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 3.

2.2 Audit background

QAO is responsible for providing parliament with independent assurance of the financial management of public sector entities by auditing their financial statements.

Energy entities prepare their financial statements in accordance with the legislative frameworks and reporting deadlines included in table 1 below.

Table 1: Legislative frameworks for the energy sector

| Entity type | Entity | Legislative framework | Legislated deadline |
|-------------------------------|---|---|---------------------|
| Government owned corporations | • CleanCo Queensland Limited | • <i>Government Owned Corporations Act 1993</i> | 31 August 2020 |
| | • CS Energy Limited | • <i>Corporations Act 2001</i> | |
| | • Energy Queensland Limited | • <i>Corporations Regulations 2001</i> | |
| | • Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland) | | |
| | • Stanwell Corporation Limited | | |
| Controlled entities | • Ergon Energy Queensland Pty Ltd | • <i>Corporations Act 2001</i> • <i>Corporations Regulation 2001</i> | 31 October 2020 |

Source: Compiled by Queensland Audit Office.

Source: Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 18.

When entities are part of a group and are secured by a deed of cross guarantee (with other entities in the group agreeing to cover debts), they are not required by the Australian Securities and Investments Commission (ASIC) to prepare financial statements. Small companies that meet specific criteria under the *Corporations Act 2001* also do not have to prepare financial statements. Accordingly, the Auditor-General did not issue audit opinions for controlled entities of CS Energy Limited, Stanwell Corporation Limited, Powerlink and Energy Queensland Limited.⁶

2.3 Audit findings

2.3.1 Audit opinions

The Auditor-General found that the financial statements of all entities in the energy sector are reliable and comply with relevant laws and standards and that all entities prepared their financial statements in a timely manner.⁷

Table 2 below details the audit opinions issued by QAO in accordance with AAS for the 2019-20 financial year. QAO expresses an 'unmodified' opinion when financial statements are prepared in accordance with the relevant legislative requirements and AAS.⁸

⁶ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, pp 22-23.

⁷ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 1.

⁸ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 19.

Table 2: QAO opinions for energy sector financial reports for 2019-20

| Element of energy supply chain | Entity | Date audit opinion issued | Type of audit opinion issued |
|--------------------------------|---|---------------------------|------------------------------|
| Generation | CleanCo Queensland Limited | 31.08.2020 | Unmodified |
| | CS Energy Limited | 28.08.2020 | Unmodified |
| | Stanwell Corporation Limited | 27.08.2020 | Unmodified |
| Transmission | Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland) | 28.08.2020 | Unmodified |
| Distribution | Energy Queensland Limited | 21.08.2020 | Unmodified |
| Retail | Ergon Energy Queensland Pty Ltd | 18.08.2020 | Unmodified |

Source: Compiled by Queensland Audit Office.

Source: Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 20.

In addition to issuing the audit opinions noted above, QAO also provides assurance over regulatory information notices and Australian Financial Services Licences. For regulatory notices, if the information is based on actual data, QAO conducts an audit. If the information is based on estimated data, QAO conducts a review. During the 2019-20 financial year, QAO issued 8 unmodified audit opinions and 11 unmodified review conclusions in relation to these regulatory information notices.

With regard to the regulatory information notices the Auditor-General Report states:

The Australian Energy Regulator issues determinations to transmission and distribution entities to regulate the amount of income these entities can earn. To monitor outcomes against current determinations, and to prepare for future determinations, it uses regulatory information notices.

For 2019–20, the Australian Energy Regulator issued three notices to Energex and Ergon (the distribution businesses of Energy Queensland Limited) covering the current 2019–20 regulatory period. These notices collect financial and non-financial information from these entities each year.

For each notice, Energex and Ergon completed a set of templates along with a ‘basis of preparation’, which describes how each template has been prepared. These notices are subject to an audit (if the information is based on actual data) or a review (if the information is based on estimated data).⁹

Table 3 below sets out the results of the 2019-20 audits and reviews of Energex and Ergon annual regulatory notices.

⁹ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 20.

Table 3: QAO opinions of regulatory notices for 2019-20

| Type of information provided | Certification date | Type of report issued |
|------------------------------|----------------------|-----------------------------------|
| Financial | 02.11.2020 (Energex) | (8) Unmodified audit opinions |
| | 02.11.2020 (Ergon) | (5) Unmodified review conclusions |
| Non-financial | 02.11.2020 (Energex) | (6) Unmodified review conclusions |
| | 02.11.2020 (Ergon) | |

Source: Compiled by Queensland Audit Office.

Source: Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 21.

With regard to Australian financial services licenses the Auditor-General Report states:

Energy sector entities are required to hold an Australian financial services licence if they enter into contracts used to manage the risk of fluctuating electricity prices. Licence holders must meet the requirements set out in their licences. These entities lodge forms annually within four months after the financial year end to the Australian Securities and Investments Commission to confirm their compliance.¹⁰

Table 4 below sets out the results of the 2019-20 audits of Australian financial services licences.

Table 4: QAO opinions of Australian financial services licenses for 2019-20

| Entity | Certification date | Type of opinion issued |
|---------------------------------|--------------------|------------------------|
| CleanCo Queensland Limited | 03.09.2020 | Unmodified |
| CS Energy Limited | 21.09.2020 | Unmodified |
| Ergon Energy Queensland Pty Ltd | 19.10.2020 | Unmodified |
| Stanwell Corporation Limited | 01.09.2020 | Unmodified |

Source: Compiled by Queensland Audit Office.

Source: Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 21.

2.3.2 Deficiencies

Despite these overall positive findings in 2019-20, QAO did note a number of deficiencies. QAO classifies deficiencies as:

- Deficiency – When internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.
- Significant deficiency – A deficiency, or combination of deficiencies, in an internal control that requires immediate remedial action.¹¹

¹⁰ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 21.

¹¹ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 25.

QAO identified 2 significant (high-risk issues) in internal controls, which both related to security of online payments. The Auditor-General Report states that these issues have been resolved. In addition, 26 deficiencies relating to strengthening internal controls, mostly for information systems were identified.¹²

In relation to the two significant deficiencies, QAO advised the issues:

... rated as significant because we believed there was a fraud risk associated with them. They were associated with controls over EFT files when payments are made. It is not uncommon for us to find issues like that. They were rectified.¹³

A further breakdown of these deficiencies is contained in the Diagram 2 below.

Diagram 2: Deficiencies identified by QAO for 2019-20



Source: Compiled by Queensland Audit Office.

Source: Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 5.

QAO reported:

The number of deficiencies (lower-risk matters) increased at energy entities this year, largely due to the implementation of new information systems.

We found nine issues relating to Energy Queensland’s ongoing implementation of a new system. These related to the need to secure financial data, implement strong password controls, and ensure users have only the appropriate access to the system.

The new system project is expected to be finalised by 2021–22 and is currently expected to cost four per cent more than the \$229 million approved by the Australian Energy Regulator (which sets the prices for network services). If Energy Queensland spends more than the approved funding, it may not be able to recover the excess by increasing its customer network charges. Financial returns to government (the shareholder) may be affected.

The security of information systems is the most common internal control weakness across the entire public sector. All entities need their people and processes to demonstrate strong security practices so information systems are promptly updated, to respond to changes within their entity and protect against external threats.¹⁴

In relation to the lower risk deficiencies, QAO advised:

... the 20 deficiencies related to information systems, there were access control issues; that is, access to systems—whether it is well managed and whether the right people have access to systems. Some related to the implementation of Energy Queensland’s new finance system.¹⁵

QAO confirmed that they will check on these issues again in the coming financial year audits.¹⁶

¹² Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 5.

¹³ Public briefing transcript, Brisbane, 19 April 2021, p 4.

¹⁴ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 5.

¹⁵ Public briefing transcript, Brisbane, 19 April 2021, p 4.

¹⁶ Public briefing transcript, Brisbane, 19 April 2021, p 4.

2.3.3 Sector performance

The audit found that while energy entities recorded a combined profit of \$204 million, profits have declined by approximately 26 per cent on the previous year. QAO identified that this reduction was largely because the electricity generating entities (defined in Diagram 1 as Generators) had reduced revenue due to lower electricity prices.¹⁷

The reduced revenue earned by the generators also impacted on the valuation of these entity's assets. The Auditor-General Report states:

The generators assess the value of their power stations annually. During the year, they determined that the future amounts they can recover from the use or sale of their coal and gas power stations are less than their current recorded value. As such, each of the generators wrote down (decreased) the value of their power stations as follows:

- Stanwell: \$720 million (19 per cent of total assets)
- CS Energy: \$353 million (15 per cent of total assets)
- CleanCo: \$35 million (eight per cent of total assets).

Although Stanwell and CS Energy decreased the value of their coal power stations, they expect them to remain profitable until their scheduled retirement over the next 26 years. The reduction in value was largely due to declining electricity prices attributed to:

- reduced electricity demand as a result of COVID-19
- increased generation from renewable sources
- lower gas prices—which increased the electricity supply from gas power stations.

Despite this, CleanCo reduced the value of its Swanbank E gas power station to zero. Due to declining electricity prices, forecasted revenues will not be sufficient to cover the increasing costs to operate the power station. CleanCo expects to earn net losses from running this power station until its expected retirement in 2036.¹⁸

QAO clarified that the commentary in the report relates specifically to CleanCo's Swanbank assets and that CleanCo has a larger business than just Swanbank Power Station. In relation to CleanCo's future viability QAO advised:

We look at whether it is a going concern within the next 12 months—can it pay its bills, effectively, within the 12 months of signing the statements. While it has projected a loss in its financial statements it can certainly continue as a going concern. From an auditor's perspective, that is our assessment there.

We look at the long-term sustainability of entities as well. Will it be able to stand alone and be sustainable in the longer term? At the moment there are forecasts in place which indicate CleanCo will be a sustainable entity in the future. In terms of details on its forward projections and its expected profitability, that is probably a question back to CleanCo in terms of the forecasts they have in place. Our opinion is limited to 12 months post certification of statements and then just a general view on sustainability into the future.¹⁹

And,

They also own some hydro-electricity assets, a number of power purchase arrangements, which we have talked about, as well as some other contracts for sale and derivative positions. It is a combination of all of those elements which add up to a sustainable business in the longer term.²⁰

¹⁷ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 7.

¹⁸ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 8.

¹⁹ Public briefing transcript, Brisbane, 19 April 2021, p 4.

²⁰ Public briefing transcript, Brisbane, 19 April 2021, p 4.

QAO confirmed that CleanCo is viable at the moment but in terms of longer term viability 'there are many elements that will affect their profitability and sustainability, including wholesale electricity prices and other entrants into the market'.²¹

In response to the committee's questions regarding whether further asset write downs could be expected, QAO advised:

Each year we have a look at cash flows associated with assets, so we do look at the ability to earn money from assets. We do that for each power station. We assess the assessment performed by each of the entities. Should there be lower cash flows into the future, it is possible that those assets will be written down further.²²

In relation to questions regarding whether the market will remain profitable, QAO advised:

They are currently earning profits. In terms of the assets owned by the distributor and the transmission entity, they do earn sufficient returns to maintain those assets and to earn a return on them. We would expect they would remain profitable into the future.

In terms of the electricity generators, there are many things that affect their profitability including future market prices and the effect of renewables such as solar on the market. At the moment they are certainly a going concern—so they are earning enough money to continue to operate—but long-term sustainability is something to look at for generators.²³

Declining electricity prices are also impacting the profitability of the distribution businesses. The Auditor-General Report states:

The Australian Energy Regulator (AER) issues 'revenue determinations', which specify how much distribution and transmission entities can charge their customers for network services. The determinations last for five years and cap the amount of revenue network entities can earn from their core business.

In June 2020, the AER decided what the maximum allowed revenues for Energy Queensland's distribution businesses (Energex and Ergon) would be for the next five years. This will reduce the revenues of Energex and Ergon by 15.8 per cent and 13 per cent respectively.

The AER estimates this will translate into lower average electricity bills in 2020–21 with:

- on average, residential customer bills reducing by \$73 in 2020–21 and increasing by \$3 annually for the next four years.
- on average, small business customer bills reducing by \$82 in 2020–21 and increasing by \$3 annually for the next four years.²⁴

Reduced electricity prices, whilst benefiting consumers, will likely result in decreased shareholder returns to the state government.²⁵

2.3.4 Challenges for the energy sector

The Auditor-General Report identified a number of challenges facing the energy sector in Queensland including:

- Increasing generation of solar power
- Renewable energy sources will replace coal as the main source of energy

²¹ Public briefing transcript, Brisbane, 19 April 2021, p 5.

²² Public briefing transcript, Brisbane, 19 April 2021, p 2.

²³ Public briefing transcript, Brisbane, 19 April 2021, p 2.

²⁴ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 9.

²⁵ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 10.

- Integrating renewables into the electricity networks
- Change rules in the electricity market

2.3.4.1 Increasing generation of solar power

The Auditor-General Report noted that increased solar generation during the middle of the day has led to negative price events. Negative price events means that, due to supply of electricity being greater than demand, power generators have had to pay the market to take the electricity they generate.²⁶

QAO confirmed:

Previously the customers solely relied on the grid for their electricity, whereas with the solar rooftops now they are able to reduce their dependence on the grid. At the same time they are also able to export excess electricity back into the grid. What solar has done is reduce the midday demand and that has pushed the price lower. That, in turn, impacts the cash flow projections of the generators.²⁷

2.3.4.2 Renewable energy sources will replace coal as the main source of energy

The Auditor-General Report identified that, currently coal-fired power stations generate 68 per cent of the state's electricity and CleanCo generates 2 per cent. The Auditor-General's report states:

The shift to renewable energy sources, along with the planned retirement of existing coal power stations over the next 26 years, will see a change in the generation mix in Queensland.²⁸

QAO advised the committee:

... the report highlighted that the energy sector is undergoing significant change. Coal-fired power plants are scheduled to progressively be retired over the next 26 years. As this occurs, it is expected that renewables will replace this capacity. The generators need to adapt to this changing mix to ensure they remain profitable and continue to deliver electricity reliably. Integrating renewables and new technology into the electricity network is also a challenge. With reduced regulated revenues, transmission and distribution entities need to manage their costs while maintaining network strength and stability.²⁹

In response to this shift, the generators are investing in renewable energy, mostly by entering into agreements to purchase power. Agreements include:

- CleanCo purchasing 400 megawatts (MW) from Macintyre Wind Farm in the Darling Downs region
- CleanCo purchasing 320 MW of solar energy from Neoen's Western Downs Green Power Hub
- Stanwell purchasing 343 MW from Clarke Creek Wind Farm, to be constructed in the Isaac and Livingstone Shire areas
- CS Energy purchasing 162 MW from the Columboola Solar Farm, to be constructed in the Western Downs Regional Council area³⁰

The Auditor-General Report also states:

In addition, CleanCo plans to build and operate its own 18-turbine wind farm at the same site as the Macintyre Wind Farm. CS Energy and Stanwell are also investing in hydrogen projects.³¹

²⁶ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 9.

²⁷ Public briefing transcript, Brisbane, 19 April 2021, p 3.

²⁸ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 11.

²⁹ Public briefing transcript, Brisbane, 19 April 2021, p 2.

³⁰ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 12.

³¹ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 12.

QAO plans to issue a report to parliament on how the state government is managing the transition to renewable energy.³² QAO confirmed that this audit has recently commenced and the report is likely to be tabled later in 2021.³³

QAO also confirmed that the audit will look at the transition process for government and how the department is getting to the renewable targets. QAO advised that they will not be auditing the government owned corporations (GOCs) themselves but focusing on what the department is doing to facilitate the implementation of the policy about generation of renewable electricity.³⁴

QAO stated:

The report will cover the implementation of the policy as a whole. If there are any other mechanisms beyond generation that need to be managed, such as the transmission network or the distribution network, that will be incorporated into our audit. In terms of our assessment of the stability of the network and the grid as a result of the implementation of the policy, that will not be so much of a focus of this particular audit. It is actually about how government is managing the implementation overall. If we do identify any risks or issues we will include them in the report.³⁵

In relation to the committee's questions regarding the impact of renewable energy targets on existing generators, QAO advised the committee:

Each year the remaining useful life of power stations is assessed. In that assessment process there are the technology elements—can the power station continue to be used?—and then there is the financial element of whether it is profitable to continue to use the power station. Both of those elements are assessed every year. We audit it every year. Our current audit has indicated that there is no change to it, but that does not mean it will not change in the future. Within CS Energy generation portfolio there were certainly writedowns as a result of a reduction in revenue associated with those assets, but there has not been a change in the estimated useful life—the closure date for that asset—yet.³⁶

And,

It is a long-term implementation of a policy that is managed by government. Certainly overall reliability and stability of supply of electricity is important. Government changes the mix of generation to meet the demand. There is an expectation that, as renewables increase to that 50 per cent point, there would be a reduction in generation from other sources.³⁷

QAO noted that, while how renewable targets are met is a decision for CS Energy, there:

... has to be sufficient generation to meet demand, though, so if there is not sufficient generation from renewable sources the demand of consumers will not be able to be met. CS Energy and the government would be balancing supply from traditional sources as well as renewables to meet the demand of consumers.³⁸

And,

Before a power plant is shut down, generators are required to give at least three years notice to the Australian Energy Market Operator. To answer your question, if a particular plant is shut down then we are losing a certain percentage of electricity. Before that decision is made, one also needs to look at whether we have sufficient supply to replace that.³⁹

³² Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 11.

³³ Public briefing transcript, Brisbane, 19 April 2021, p 3.

³⁴ Public briefing transcript, Brisbane, 19 April 2021, p 3.

³⁵ Public briefing transcript, Brisbane, 19 April 2021, p 3.

³⁶ Public briefing transcript, Brisbane, 19 April 2021, p 5.

³⁷ Public briefing transcript, Brisbane, 19 April 2021, p 6.

³⁸ Public briefing transcript, Brisbane, 19 April 2021, p 6.

³⁹ Public briefing transcript, Brisbane, 19 April 2021, p 6.

2.3.4.3 Integrating renewables into the electricity networks

QAO identified that shifts towards renewable energy sources can affect the stability of the network and network entities will need to accommodate these changes while maintaining a reliable electricity supply.⁴⁰

The Auditor-General Report states:

With the shift towards renewable energy sources, electricity generators are becoming smaller and more geographically dispersed, which means they need more transmission connections to the network. As mentioned earlier, an increasing number of households also produce their own electricity through rooftop solar panels. If households do not consume this electricity, it is sent back into the network.⁴¹

In response to the committee's questions regarding the challenges and opportunities that the integration of all different kinds of renewable power presents, QAO advised:

We have certainly noted the response of the entities in terms of the government's renewable energy policy of 50 per cent renewables by 2030. Each of the generators has responded, mostly through entering into agreements with the private sector to purchase renewable electricity or energy from the private sector. We are expecting to see into the future a shift from coal-fired generation to renewable generation, which will change the look of the sector. I think they are working through how that will affect their financial sustainability as well. The first retirement of a coal-fired generator will not be until 2028, so there is some time ahead before that happens.

In terms of the networks, they are also affected by the introduction of renewables. They need more connection points and it is a changed profile of operation for networks as well.⁴²

And,

... we are noticing that renewables are also putting downward pressure on wholesale electricity prices. What that means is that customers with solar rooftop panels are essentially now generating electricity. If you think of a traditional network, they used to just get electricity but now, with solar rooftops, they are generating electricity. What that translates into is lower wholesale prices. This, in turn, has an impact on the asset values and is primarily driving down the value of the assets that we see.⁴³

In relation to the stability and reliability of the electricity network as a whole, QAO advised:

... Energy Queensland has a very wide network. It covers regional Queensland as well as some isolated distribution networks. This report looked at the value of those assets. There has not been any effect on the value of those particular assets. That is probably all we can comment on in terms of those actual distribution networks, other than to say that they do have a reasonably long life so they are not expected to cease using those assets and they are expecting those networks to continue into the future.⁴⁴

And,

In terms of the investment in the network itself, there is a regulator that sits over the top and looks at the investment in the network. Energy Queensland has a network which covers all of Queensland. Therefore, the regulator has oversight of that whole network in terms of the level of investment.⁴⁵

⁴⁰ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 12

⁴¹ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 12

⁴² Public briefing transcript, Brisbane, 19 April 2021, pp 2-3.

⁴³ Public briefing transcript, Brisbane, 19 April 2021, p 3.

⁴⁴ Public briefing transcript, Brisbane, 19 April 2021, p 5.

⁴⁵ Public briefing transcript, Brisbane, 19 April 2021, p 5.

2.3.4.4 *Change of rules in the electricity market*

The Auditor-General Report states:

From 1 October 2021, wholesale electricity prices will be determined every five minutes (instead of every 30 minutes). Over time, the Australian Energy Market Commission expects this change to result in lower wholesale costs, which should lead to lower electricity prices. Wholesale costs make up around one third of a typical electricity bill.

To implement this change, Queensland energy entities need to reconfigure their existing information technology systems. The estimated cost of implementation for all energy entities is \$42 million.⁴⁶

2.4 QAO recommendations

QAO made the following recommendations to the entities:

We recommend all entities strengthen the security of their information systems. They rely heavily on technology, and increasingly, they have to be prepared for cyber attacks. Any unauthorised access could result in fraud or error, and significant reputational damage.

Their workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.

Entities should:

- provide security training for employees so they understand the importance of maintaining strong information systems, and their roles in keeping them secure
- assign employees only the minimum access required to perform their job, and ensure important stages of each process are not performed by the same person
- regularly review user access to ensure it remains appropriate
- monitor activities performed by employees with privileged access (allowing them to access sensitive data and create and configure within the system) to ensure they are appropriately approved
- implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile), particularly for systems that record sensitive information
- encrypt sensitive information to protect it
- patch vulnerabilities in systems in a timely manner, as upgrades and solutions are made available by software providers to address known security weaknesses that could be exploited by external parties.

Entities should also self-assess against all of the recommendations in *Managing cyber security risks* (Report 3: 2019–20) to ensure their systems are appropriately secured.⁴⁷

2.5 Agency responses to the Auditor-General Report

Section 64 of the *Auditor-General Act 2009* outlines that a copy of the report was required to be provided to the responsible Ministers and agencies.

Responses were received from the Minister for Energy, Renewables and Hydrogen and Minister for Public Works and Procurement, and the Acting Under Treasurer, Queensland Treasury. Their full responses are included in Attachment B.

⁴⁶ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 13.

⁴⁷ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 6.

The response from the Minister noted that:

The Report included a recommendation for the energy entities to strengthen the security of their information systems. I understand aspects of this important matter required immediate action and were resolved in a timely manner.⁴⁸

The Acting Under Treasurer responded:

The three challenges raised in the report are not unique to the Queensland energy sector, and the entire industry will need to adapt to meet this changing environment. The Queensland Government has a strong commitment to ensuring prices remain sustainable and the fact that Queensland owns its energy businesses means that these businesses can play an important role in our transition to 50 per cent renewable energy by 2030.⁴⁹

The committee noted the Minister's response indicated that aspects of the recommendation to energy entities to strengthen the security of their information systems required immediate action and that this was resolved in a timely manner. The committee wrote to the Auditor-General seeking confirmation that he was satisfied with the response taken by the energy entities in relation to this issue.

The Auditor-General provided the following response:

In my report, I recommended that all entities strengthen the security of their information systems. Entities rely heavily on technology and there is an increasing need for them to be prepared for cyberattacks.

During the 2019-20 audit, I also raised two significant deficiencies with one energy entity about its securing of electronic funds transfer (EFT) files and online banking authorisations. A significant deficiency is where internal controls are ineffective or missing and remedial action is required immediately.

During all annual financial audits, I raise matters directly with entities as the audit progresses. The minister's response was referring to the significant deficiencies I had initially raised in my management report to the entity and then in the *Energy 2020* report. I am satisfied that the entity has since taken action to address the significant deficiencies reported.⁵⁰

2.6 Committee comments

During its consideration of the Auditor-General Report the committee considered a range of issues including:

- whether the deficiencies identified during the audit have been rectified
- the performance of the energy sector
- the challenges facing the energy sector.

The committee is satisfied that the energy agencies have taken appropriate action to address the Auditor-General's recommendations and have rectified the deficiencies identified in a timely manner. The committee is also satisfied that whilst the performance of the energy sector declined when compared to the previous financial year, there are reasonable explanations for this outcome. The committee is satisfied that the sector remains viable at this point in time.

The committee noted the Under Treasurer's comments regarding the challenges facing the sector and that the government is committed to ensuring the sustainability of the sector.

⁴⁸ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 16.

⁴⁹ Queensland Audit Office, Auditor-General Report No. 11: 2020-21, p 17.

⁵⁰ Queensland Audit Office, correspondence, 10 March 2021, p1.

Appendix A – Officials at public briefing on 19 April 2021

Queensland Audit Office

- Mr Patrick Flemming, Assistant Auditor-General
- Ms Rachel Vagg, Assistant Auditor-General
- Mr Irshaad Asim, Senior Director

Appendix B – Agency responses to the Auditor-General Report

A. Full responses from entities

As mandated in Section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the:

- Minister for Energy, Renewables and Hydrogen and Minister for Public Works and Procurement
- Under Treasurer, Queensland Treasury
- Chief executive officers for
 - CleanCo Queensland Limited
 - CS Energy Limited
 - Energy Queensland Limited
 - Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)
 - Stanwell Corporation Limited.

We also provided a copy of this report to the Premier and Minister for Trade; Treasurer and Minister for Investment; and Director-General, Department of the Premier and Cabinet with an invitation to respond.

This appendix contains the formal responses that we received.

The heads of these agencies are responsible for the accuracy, fairness, and balance of their comments.



Comments received from Minister for Energy, Renewables and Hydrogen and Minister for Public Works and Procurement



Minister for Energy, Renewables and Hydrogen
Minister for Public Works and Procurement

Our Ref: CTS 25325/20

1 William Street
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GPO Box 2457 Brisbane
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E: epw@ministerial.qld.gov.au

22 JAN 2021

Mr Brendan Worrall
Auditor-General of Queensland
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Email: qao@qao.qld.gov.au

Dear Mr Worrall *Brendan*

Thank you for your email of 1 December 2020 regarding the Queensland Audit Office (QAO) Queensland Energy Entities: 2019–20 Results of Financial Audits *Report* (the Report) and the opportunity to provide comments.

The Report presents an informative overview of the energy sector entities in Queensland and I appreciate the consultative approach taken by the QAO. I note the Report's finding that the financial statements of all six energy entities are reliable and comply with relevant laws and standards, and that despite declines in sector profits the energy sector remains financially viable.

The Report included a recommendation for the energy entities to strengthen the security of their information systems. I understand aspects of this important matter required immediate action and were resolved in a timely manner.

Thank you again for the opportunity to review and respond on the Report. If you need more information or help with this matter, [redacted] can be contacted on [redacted].

Yours sincerely

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

Comments received from Acting Under Treasurer, Queensland Treasury



Queensland Treasury

Our Ref: 05905-2020

Mr Brendan Worrall
Auditor-General of Queensland
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Email: qao@qao.qld.gov.au

BRENDAN
Dear Mr Worrall

Thank you for your email of 1 December 2020 about the Queensland Audit Office (QAO) draft *Energy 2020* report (the Report) summarising the audit results of Queensland's six energy entities and the opportunity to provide comments.

As it has for many years, the draft report presents an informative overview of the energy sector entities in Queensland and I acknowledge efforts of the officers involved in developing this report.

I welcome that unmodified audit opinions were provided on the 2019-20 financial statements for all the energy sector entities, and therefore readers can rely on the results in the financial statements.

The three challenges raised in the report are not unique to the Queensland energy sector, and the entire industry will need to adapt to meet this changing environment. The Queensland Government has a strong commitment to ensuring prices remain sustainable and the fact that Queensland owns its energy businesses means that these businesses can play an important role in our transition to 50 per cent renewable energy by 2030.

I understand QAO and Queensland Treasury officers are in discussions regarding the draft Report and I appreciate the QAO's constructive engagement and consultative approach.

Thank you again for the opportunity to review and respond on this draft report. If you require any further information, please contact

[Redacted] who will be happy to discuss further.

Yours sincerely

Graham Fraine
Graham Fraine
Acting Under Treasurer

7/1/2021

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