



# ***TRANSPORT AND RESOURCES COMMITTEE***

**Members present:**

Mr SR King MP—Chair  
Mr CE Boyce MP  
Mr LL Millar MP  
Ms JC Pugh MP  
Mr LA Walker MP  
Mr TJ Watts MP

**Staff present:**

Ms D Jeffrey—Committee Secretary  
Mr Z Dadic—Assistant Committee Secretary

## **PUBLIC BRIEFING—AUDITOR-GENERAL'S REPORT NO. 11 OF 2020-21—*ENERGY 2020***

### **TRANSCRIPT OF PROCEEDINGS**

**MONDAY, 19 APRIL 2021**

**Brisbane**

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### **The committee met at 9.30 am.**

**CHAIR:** I declare open this public briefing on the Auditor-General’s report No. 11 of 2020-21 titled *Energy 2020*. I would like to respectfully acknowledge the traditional custodians of the land on which we meet today and pay our respects to elders, past and present. We are very fortunate to live in a country with two of the oldest continuing cultures in Aboriginal and Torres Strait Islander people, whose lands, winds and waters we all share.

My name is Shane King, member for Kurwongbah and chair of the committee. With me here today are: Lachlan Millar MP, member for Gregory and deputy chair; Colin Boyce MP, member for Callide; Jess Pugh MP, member for Mount Ommaney; Les Walker MP, member for Mundingburra; and Trevor Watts MP, member for Toowoomba North.

The purpose of today’s briefing is to assist the committee with its consideration of Auditor-General’s report No. 11. The committee’s proceedings are proceedings of the Queensland parliament and are subject to the standing rules and orders of the parliament. As parliamentary proceedings, under the standing orders any person may be excluded from the hearing at the discretion of the chair or by order of the committee.

The committee will not require evidence to be given under oath, but I do remind witnesses that intentionally misleading the committee is a serious offence. You have previously been provided with a copy of instructions to witnesses, so we will take those as read. The proceedings are being recorded by Hansard and broadcast live on the parliament’s website. Media may be present and will be subject to the chair’s direction at all times. The media rules endorsed by the committee are available from committee staff if required. All those present today should note that it is possible you might be filmed or photographed during the proceedings by media and the images may also appear on the parliament’s website or social media pages. I ask everyone present to please turn mobiles phones off or to silent mode.

I remind committee members that officials are here to provide factual or technical information and any questions seeking an opinion about policy should be directed to the relevant minister or left to debate on the floor of the House. I also ask that responses to any questions taken on notice today are provided to the committee by 4 pm on Tuesday, 27 April 2021.

**ASIM, Mr Irshaad, Senior Director, Queensland Audit Office**

**FLEMMING, Mr Patrick, Assistant Auditor-General, Queensland Audit Office**

**VAGG, Ms Rachel, Assistant Auditor-General, Queensland Audit Office**

**CHAIR:** Welcome. Would you like to make an opening statement, after which committee members will have some questions for you?

**Mr Flemming:** Thank you for the opportunity to brief the committee today on *Energy 2020*, report No. 11 for 2020-21, which we tabled in February 2021. This report summarises the results of our financial audits of the six state government owned energy entities: CleanCo, CS Energy, Stanwell, Powerlink and Energy Queensland including its subsidiary Ergon Energy Queensland. These entities generate, transmit and distribute most of Queensland’s electricity, while Ergon Energy Queensland is the electricity retailer for most customers in regional Queensland.

We found that the financial statements of all entities in the energy sector are reliable and comply with relevant laws and standards. We issued unmodified audit opinions for all entities and all prepared their financial statements by the legislative deadline of 31 August 2020.

As part of our annual audit process we assess whether the internal controls entities use to prepare financial statements are effective. While we were able to rely on the entities’ internal controls, we identified some deficiencies. Most involved the security of information systems, including high-risk issues relating to the security and authorisation of online payments. These high-risk issues required immediate action and were resolved by the entities in a timely manner. We raised one recommendation to all entities in the report: to strengthen the security of information systems.

In the 2019-20 financial year profits declined to \$204 million from \$1.5 billion the previous year. This 88 per cent decrease was mostly due to lower wholesale electricity prices in Queensland, which reduced the generators' revenues and their asset values. While the transmission and distribution entities—that is, Powerlink and Energy Queensland—both reported net profits, these were 26 per cent lower than the previous year. This reduction was largely due to decisions by the Australian Energy Regulator to reduce the revenue they can earn from their core business activities.

Total returns to the state government were \$1 billion in 2019-20. This was a decrease of \$1.2 billion, or 54 per cent, from the previous year and was due to the decrease in sector profits. However, total returns to customers from the state government were \$1.5 billion, which was an increase of \$403 million from the previous year. This was largely due to the electricity bill relief provided by the Queensland government during COVID-19.

In terms of future challenges, 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. We welcome any questions the committee has on this report.

**Mr BOYCE:** Thank you for coming this morning. In relation to the *Energy 2020* report, we saw significant writedowns by power generators with the Australian Energy Market Commission expecting lower wholesale power costs into the future. Can we expect more of these significant writedowns?

**Ms Vagg:** 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.

**Mr BOYCE:** The report states—

The profits of the transmission and distribution businesses continue to decline. This is largely driven by decisions of the Australian Energy Regulator to reduce the revenue they can earn from their core business activities. We expect to see this trend continue in the next financial year.

That begs the question: will the market remain profitable?

**Ms Vagg:** 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.

**CHAIR:** From what I understood, the profitability was lower because there were some returns to consumers that also helped to lower that; is that correct? Could you comment on that?

**Ms Vagg:** Retailers are different from generators. There was support for consumers of electricity. In terms of the generators' profitability, lower wholesale prices certainly affected their profitability. Those lower wholesale prices affected the revenue they earned from the market as well as their asset values. When asset values decline, that is put through their profit and loss statements. Both that reduction in wholesale prices—so revenue earned from that—and the reduction in assets affected their profitability.

**CHAIR:** I was talking about the retailers, because the load also lowered the power prices for everyone.

**Ms Vagg:** Yes, that is right.

**Ms PUGH:** In the report you touch on the challenges that are posed by the integration of renewable energy into the grid. I am interested to hear you expand a little bit on both the challenges and the opportunities that the integration of all different kinds of renewable power presents, whether it is hydro, solar or batteries—so any challenges and any opportunities that presents.

**Ms Vagg:** 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.

**Mr Asim:** In response to your question on the challenges that renewables have caused, 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.

**Ms PUGH:** I want to clarify that as this is a very complicated area. You are saying that because people can generate their own electricity it then puts downward pressure on the retailers to provide a better price; is that right?

**Mr Asim:** 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.

**CHAIR:** How does Queensland compare to other states and territories in the NEM when it comes to wholesale prices?

**Mr Asim:** Just looking at the recent data, our price is actually one of the lowest compared to some of the other states.

**Mr WATTS:** In your *Energy 2020* audit report you flagged that you would be providing a report on how government is managing its transition to renewable energy. I am wondering when we might expect that report.

**Mr Flemming:** Certainly. That report is something that we have just kicked off, so we are likely to table that in the second half of this calendar year. That is looking at the transition process for government: how are they getting to their renewable targets and what is the department doing towards that?

**Mr WATTS:** That will include generation, distribution, retail, solar on rooftops—all forms? It will look at all aspects?

**Mr Flemming:** We are looking at the strategies the government has in place to estimate what is required by 2030—50 per cent by 2030—and then what the strategies are, what the estimates are, what is currently in place and what are the gaps. What are the risks that might not be filled by that? That is where that report is going to go.

**Mr WATTS:** Just to clarify, is that from a generation point of view or from a distribution point of view as well?

**Ms Vagg:** It is the generation of electricity according to renewable sources. It is not actually auditing the government owned corporations themselves; it is auditing the department which is facilitating the implementation of the policy, but it is about the generation of renewable electricity.

**Mr WATTS:** I know I am being repetitive, but obviously at the moment the generation of electricity is going through our current grid with multiple input sources coming from people's roofs, other locations and everything else. Transmission is also fundamental to renewables working for the state. I just want to make sure that this report will also look at that in terms of the stability of the transmission network.

**Ms Vagg:** 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.

**CHAIR:** I understand that that is more of a statement than a question. You were saying earlier that the challenges faced by the distribution network are that it was set up to be an export and now it is an import and some of it was not designed to do that. That does present a lot of challenges. Without going into the specifics of the entity involved, can you expand on the security deficiencies identified during the audit, including the impact had they not been rectified?

**Ms Vagg:** We did raise 26 control deficiencies across the sector, 20 of which related to information system controls. In addition to that, there were two significant deficiencies. A significant deficiency for us is something that needs to be immediately rectified. The entity where we raised those two issues did immediately rectify those issues. They were 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. In terms of 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.

**CHAIR:** The potential threat was fraud; is that right?

**Ms Vagg:** That is right: fraud and error, but mostly fraud would have resulted in the rating as a significant deficiency.

**CHAIR:** It is all sorted out now?

**Ms Vagg:** It is all sorted out now. We will check it again in this year's audit. It is something that we check in every entity every year.

**Mr WALKER:** As we know, there are more and more people coming off the grid. Do we have a record of the numbers of residential properties that are disconnecting from the grid and standing alone? If so, what are those numbers?

**Ms Vagg:** That is potentially a question for the entities themselves. We assess things from a materiality perspective. Disconnections are checked as part of our audit of the retail element of Energy Queensland. They are not considered material, or major in terms of our audit. That is potentially a question for the entities directly.

**Mr WALKER:** The reason I ask that question is that it impacts the bottom line in relation to profit and loss, how we move forward and how that impacts on the grid in general. We can see the assets being written down. This must have some impact in relation to the use of the grid going forward.

**Ms Vagg:** It is a risk that has been identified within the sector: what is the effect of renewable energies and microgrids and people standing alone? It has certainly been an issue raised across the sector.

**Mr MILLAR:** I go back to CleanCo. Page 8 of the Auditor-General's report states—

Despite this, CleanCo reduced the value of its Swanbank E gas power station to zero ... CleanCo expects to earn net losses from running this power station until its expected retirement in 2036.

When is CleanCo going to be viable in its own right? Have you been able to work that out?

**Ms Vagg:** CleanCo has a larger business than just Swanbank. We were providing information on Swanbank in that particular section. In terms of future profitability for CleanCo, we look at two things. 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.

**Mr MILLAR:** With CleanCo expected to have net losses until 2036, how do you see it as a viable operation? During the year they purchased MacIntyre Wind Farm and the Western Downs Green Power Hub. They are spending a lot of money, but the rate of return on investment does not seem to be there and it does not look like it is going to be there, going off these figures, for quite some time. How can we say that CleanCo will be a viable enterprise in the future?

**Ms Vagg:** I will clarify that particular comment in the report. It relates to Swanbank Power Station itself. They are not expected to earn a profit from running Swanbank alone, hence it was written down to nil. CleanCo's business is greater than that single power station. 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.

**Mr MILLAR:** Are they viable at the moment or is it in the longer term?

**Ms Vagg:** They are viable at the moment. That is what we have provided an opinion on. In terms of the longer term, there are many elements that will affect their profitability and sustainability, including wholesale electricity prices and other entrants into the market.

**Mr BOYCE:** As we see more batteries installed to complement renewable energy—wind, solar and so forth—and as those battery assets are depleted and have to be plugged into the system to be recharged and effectively become a user of the system, can the reliability and frequency of the system be guaranteed without the use of traditional base load power assets?

**Ms Vagg:** That is probably beyond the scope of our audit and something worth referring back to the department and the entities themselves. It is an issue that has been raised in terms of the stability and reliability of the electricity network as a whole.

**Mr MILLAR:** This is an issue that relates very much to where I come from, which is the seat of Gregory in Western Queensland. What impact has this report found on the sustainability of our networks in regional and rural areas and the ability to not only improve but also continue to invest in those areas?

**Ms Vagg:** Certainly 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.

**Mr MILLAR:** My concern around this—and I do not expect an answer, because you are the Assistant Auditor-General and you look at it on face value—is: given that we have seen writedowns of investments and they look for a rate of return to give them dividends to invest back into the network, does that have an impact on places like Barcaldine and Blackall where you have to send electricity a long way to get to the power point? Is there a potential impact on future investment in those areas?

**Ms Vagg:** 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.

**CHAIR:** Coming from the industry, I can say that it is quite a fragile network out there and there is a uniform tariff policy to make sure that someone at the end of 60 kilometres of powerline pays the same for power. The upkeep is expensive. I cannot see the network not having it. It needs to be there. I am commenting rather than asking a question. We could probably have that conversation offline.

**Ms PUGH:** You noted that having renewables—particularly, I am imagining, we are talking about solar on rooftops—pushed down the prices for customers. I am wondering whether you noticed a difference, particularly in the South-East Queensland market, when Alinta entered the market a few years ago. Was there a noticeable impact when that occurred? Are you able to comment on consumer power prices at all?

**Mr Asim:** Obviously there are a lot of retailers in the market. From our perspective, we only audit one retailer which is operated by Energy Queensland. It is hard for us to say the extent of the impact Alinta had in terms of overall electricity prices.

**Mr BOYCE:** I have Callide B Power Station in my electorate, at Biloela. As we see more rooftop solar put in place, it will become the largest generator of electricity to consumers, putting downward pressure on other solar energy and wind energy assets. With the government's 50 per cent renewable energy target by 2030, is it likely that the foreseen foreclosure of Callide B Power Station in 2028 may be brought forward to balance that 50 per cent renewable energy equation?

**Ms Vagg:** 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.

**Mr WATTS:** I am just trying to understand this. Obviously, one way to reach a 50 per cent target is to increase renewables. The other way is to close coal-fired power stations. Are you saying that if that closes that would change the equation because we are no longer using that generation source?

**Ms Vagg:** 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.

**Mr WATTS:** Like I said, you do not have to increase to reach 50 per cent; you can shut and reach 50 per cent. If I close all the coal-fired power stations today, we easily make the target. We do not have reliable, stable power but we easily make the target. I am just trying to understand this. If Callide B shuts early, that immediately jumps up to the 50 per cent target. It is not talking about a number for generational power; it is talking about 50 per cent overall power.

**Ms Vagg:** It is a decision for CS Energy. Overall, 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.

**Mr Asim:** 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.

**CHAIR:** Thank you once again for your assistance and for your attendance here today. A transcript of these proceedings will be available on the committee's parliamentary webpage in due course. I declare the public briefing closed.

**The committee adjourned at 10.02 am.**