



FINANCIAL AUDIT REPORT

2 December 2021

Energy 2021

Report 7: 2021–22

As the independent auditor of the Queensland public sector, including local governments, the Queensland Audit Office:

- provides professional audit services, which include our audit opinions on the accuracy and reliability of the financial statements of public sector entities
- provides entities with insights on their financial performance, risk, and internal controls; and on the efficiency, effectiveness, and economy of public service delivery
- produces reports to parliament on the results of our audit work, and on our insights, advice, and recommendations for improvement
- supports our reports with graphics, tables, and other visualisations, which connect our insights to regions and communities
- conducts investigations into claims of financial waste and mismanagement raised by elected members, state and local government employees, and the public
- shares wider learnings and best practice from our work with state and local government entities, our professional networks, industry, and peers.

We conduct all our audits and reports to parliament under the *Auditor-General Act 2009* (the Act). Our work complies with the *Auditor-General Auditing Standards* and the Australian standards relevant to assurance engagements.

- Financial audit reports summarise the results of our audits of over 400 state and local government entities.
- Performance audit reports cover our evaluation of some, or all, of the entities' efficiency, effectiveness, and economy in providing public services.

Learn more about our publications on our website at www.qao.qld.gov.au/reports-resources/fact-sheets.

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

2 December 2021

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*.



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Report on a page

This report summarises the audit results of Queensland's six energy entities. These entities generate (CleanCo, CS Energy, and Stanwell), transmit (Powerlink), and distribute (Energy Queensland) most of Queensland's electricity; and Ergon Energy Queensland is the electricity retailer for most customers in regional Queensland.

Financial statements are reliable

The financial statements of all entities in the energy sector are reliable and comply with relevant laws and standards. They were prepared in a timely manner and were of good quality.

Weaknesses in the security of information systems

We continue to identify weaknesses in the entities' information systems.

Implementing new systems requires entities to establish new processes for assigning and monitoring access to their systems. Significant weaknesses were identified in these processes. Given how much entities rely on their information systems, they all need to strengthen their security.

Energy Queensland and Ergon Energy Queensland have been implementing their new information systems since December 2017. One significant change in scope has caused the project to be delayed, with estimated final completion by December 2022. The total expected cost is \$650 million, which is \$77 million over the revised budget.

Sector profits have increased

The energy sector's profits increased from 2019–20, due to an increase in profit from the generators of \$461 million. This was largely due to their power stations not decreasing in value as much as in 2019–20. Stanwell recorded a \$375 million profit in 2020–21.

In May and June 2021, electricity prices increased. One of the main causes for the higher prices was the Callide C incident. On 25 May 2021 there was an incident at CS Energy's Callide C power station which forced the unit offline. Subsequently, multiple power stations and transmission lines tripped, resulting in blackouts to approximately 470,000 properties across the state. CS Energy is seeking recovery from its insurer for material damage and business interruption.

Profits from the transmission and distribution entities declined by \$223 million, due largely to a reduction in the revenue they are permitted by the Australian Energy Regulator to earn from their core business (transporting electricity to customers).

Future challenges

As the sector diversifies to renewable sources, the energy entities need to ensure they remain profitable and deliver reliable electricity supply to Queenslanders. The generators continue to invest in renewable energy primarily through power purchase agreements with privately owned solar and wind farms.

Integrating renewables and new technology into the electricity network is also a challenge as the sources can be in remote areas and can provide less predictable supply. With reduced profits, transmission and distribution entities need to manage their costs while maintaining network strength and stability.



Recommendations for entities

Information systems recommendation requires further action

Our only recommendation for the energy entities this year is that they address the security of their information systems. This was the same recommendation in *Energy 2020* (Report 11: 2020–21). We have included the prior year recommendation and its status in [Appendix C](#).

While entities took appropriate action to resolve the issues we reported to them last year, the implementation of new information systems meant similar control weaknesses were identified this year.

All entities must have strong security practices to protect against cyber attacks, fraud, error, and significant reputational damage. Our report on *Managing cyber security risks* (Report 3: 2019–20) provides information on effective management of cyber security risks and mitigation strategies.

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, we provided a copy of this report to relevant entities. In reaching our conclusions, we considered their views and represented them to the extent we deemed relevant and warranted. Any formal responses from the entities are at [Appendix A](#).



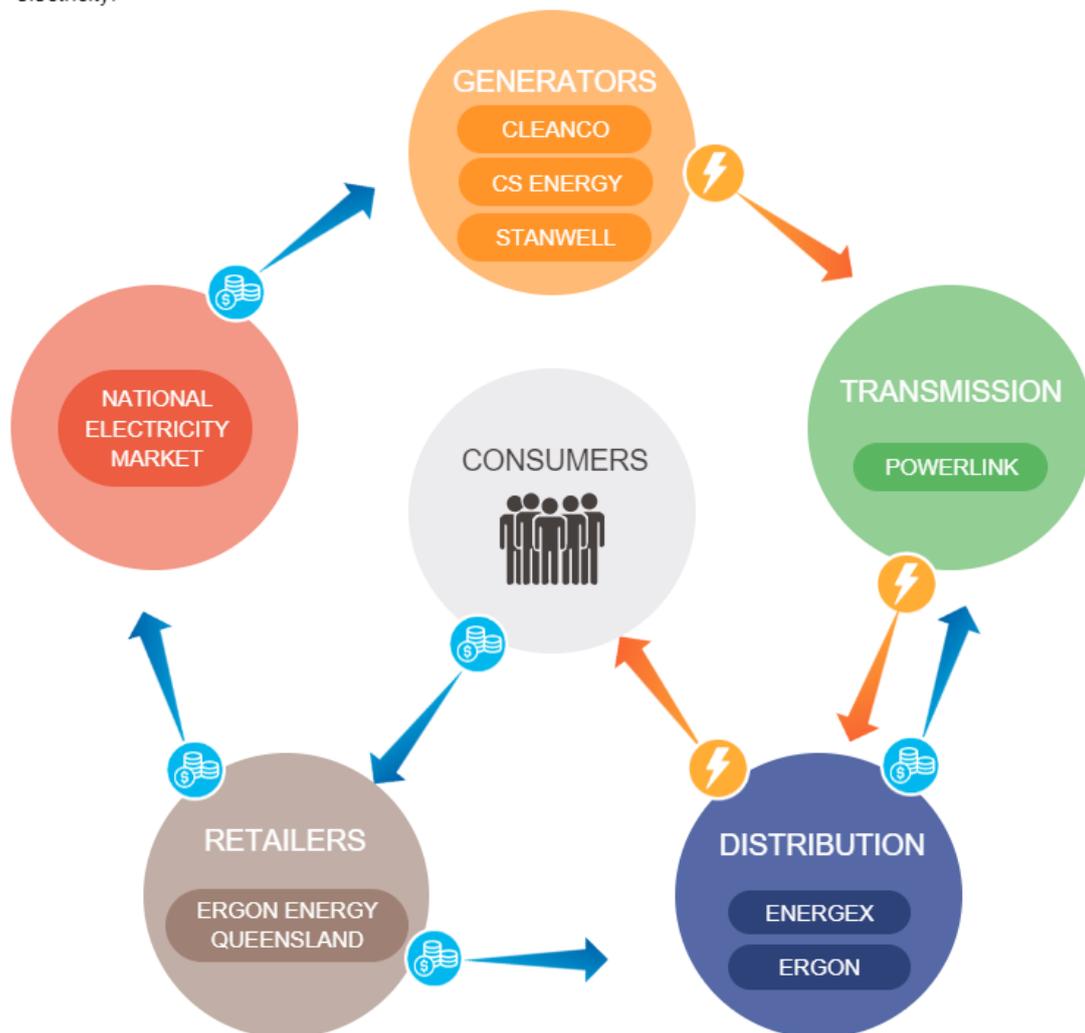
1. Overview of entities in this sector

In Queensland, state government owned corporations generate, transmit, and distribute most of the state's electricity. The following diagram shows their roles in the Queensland energy sector supply chain.

Figure 1A
Queensland's energy sector

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.



Notes:

- The National Electricity Market is the cross-state wholesale electricity market through which generators and retailers from the eastern and southern Australian states and territories trade electricity. Stanwell and CS Energy also participate in the retail market.
- Energex, Ergon, and Ergon Energy Queensland are subsidiaries of Energy Queensland Limited.

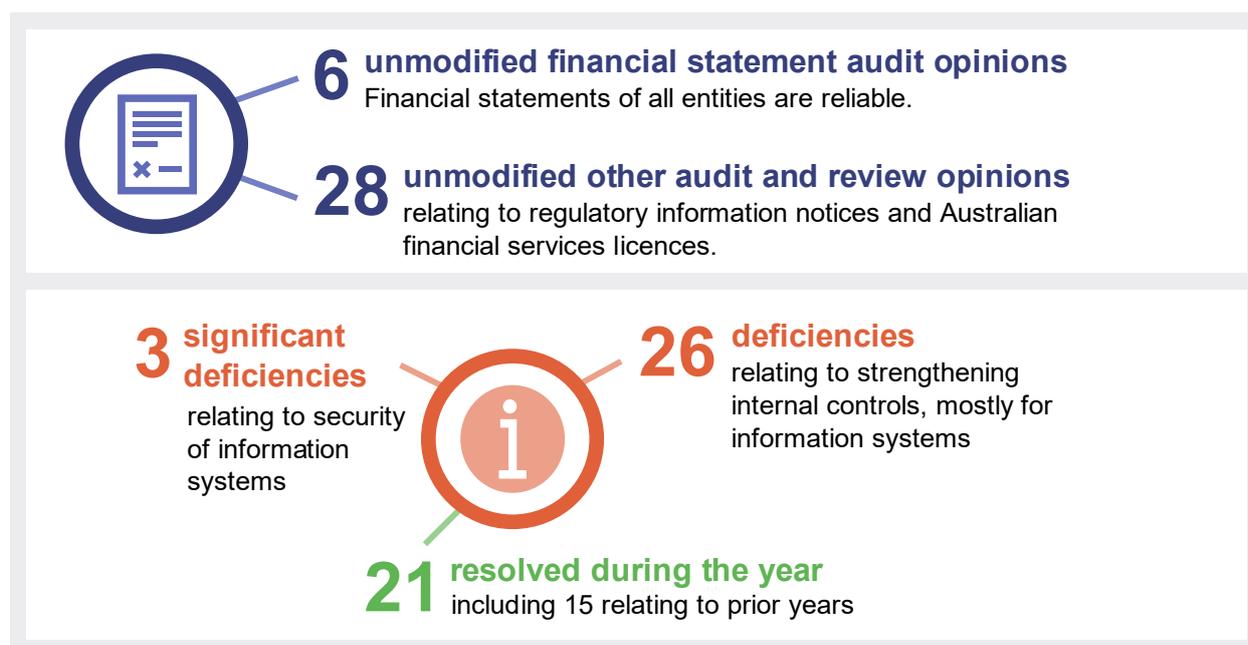
Source: Compiled by the Queensland Audit Office.



2. Results of our audits

This chapter provides an overview of our audit opinions for the energy sector entities. It also provides conclusions on the effectiveness of the systems and processes (internal controls) entities use to prepare financial statements.

Chapter snapshot



Notes:

- Regulatory information notices are used to collect information from the transmission and distribution entities to assist the Australian Energy Regulator (AER) in deciding how much these entities can earn.
- Entities must have Australian financial services licences if they enter into contracts to manage the risk of fluctuating electricity prices. These entities must lodge an annual compliance form with the Australian Securities and Investments Commission.

Financial statements and other reports are reliable

We issued unmodified audit opinions on the financial statements of all six energy entities in Queensland. This means their financial statements have been prepared in accordance with the relevant legislative requirements and Australian accounting standards, and therefore the results can be relied on.

All energy entities met their legislative deadlines for signing their financial statements. They assessed their financial statement preparation processes against the Queensland Audit Office's financial statement preparation maturity model, and rated them as 'integrated' or 'optimised'—the highest levels of maturity. This means they believe they efficiently provide high-quality information in a regular and timely manner. The results of our audit work supports their assessments.

[Appendix D](#) details the audit opinions we issued for energy entities in 2020–21. Not all entities in the energy sector need to prepare financial statements. [Appendix E](#) lists those that do not, and the reasons why.

Other audit certifications

We also provided assurance over regulatory information notices and Australian financial services licences, as well as two new minor certificates. [Appendix D](#) lists the audit certifications we issued.

For the regulatory information notices, if the information is based on actual data, we conduct an audit. If it is based on estimated data, we conduct a review. We have issued eight unmodified audit opinions and 14 unmodified review conclusions for these audits.

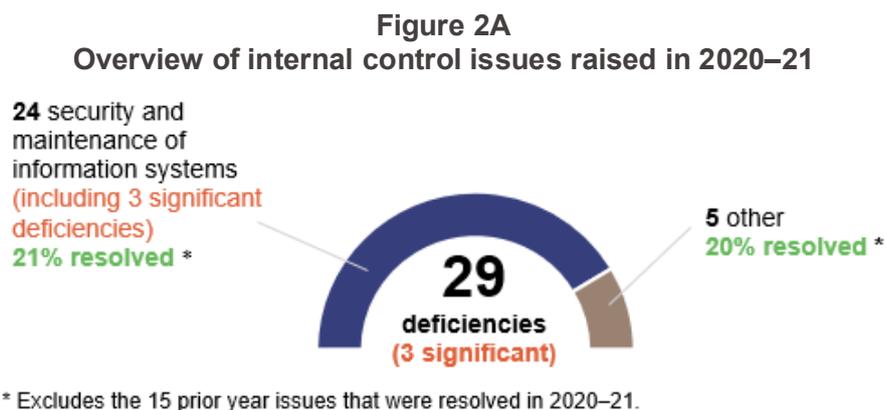
The entities fulfilled their obligations under their financial services licenses during the year.

Entities should strengthen the security of their information systems

We assess whether the internal controls used by entities to prepare financial statements are reliable. We report any deficiencies in the design or operation of those internal controls to management for action. Any deficiencies are rated as either significant deficiencies (those of higher risk that require immediate action by management) or deficiencies (those of lower risk that can be corrected over time).

In 2020–21, we found the internal controls energy entities have in place for reliable financial reporting were generally effective. We identified three significant deficiencies in one entity, but it promptly took appropriate actions to address these issues.

Figure 2A shows the nature of the internal control deficiencies we reported during the year.



Source: Compiled by the Queensland Audit Office.

The most common control issue we reported to energy entities this year related to weaknesses with information systems. This is consistent with last year. While entities took action to resolve the issues we reported to them last year, the implementation of new information systems meant similar control weaknesses were identified this year.

The control weaknesses identified mainly related to user access to the systems. Entities should only assign employees the minimum access required to perform their jobs, monitor the activities of privileged users (who can access sensitive data and create and configure within the system), and implement strong password practices and multifactor authentication (for example, a username and password, plus a code sent to a mobile).

We recommend all entities continue to act on the recommendation from our report last year to strengthen the security of their information systems. [Appendix C](#) provides the full recommendation and status as at 30 June 2021.



Energy Queensland’s implementation of its new information systems

The security of information systems has become even more important this year, as new systems are introduced.

Since December 2017, Energy Queensland and Ergon Energy Queensland have been implementing several new information systems. During the year, the final approved budget increased by \$77 million to \$650 million. A significant change in scope has delayed the system implementations, with final completion by December 2022. Any further delays will likely increase the final cost. Additional costs may not be recoverable by increasing customer network charges.

Governance of the energy entities

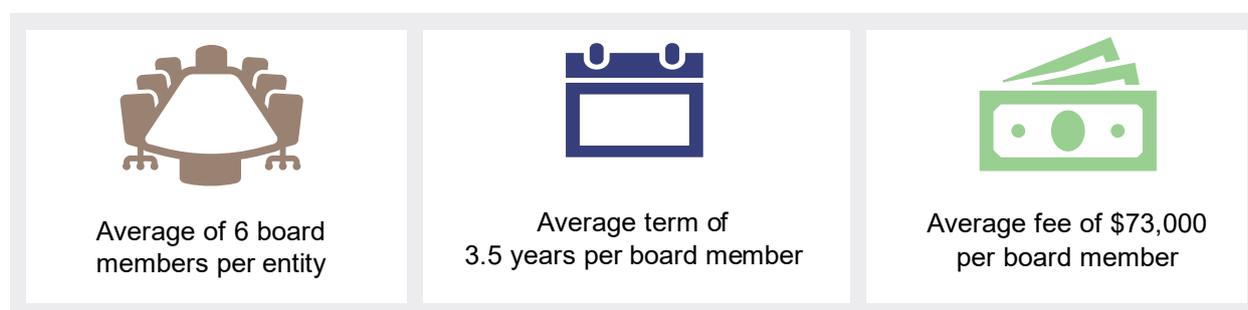
Boards play an integral role in setting the strategic direction for an entity, ensuring corporate compliance and management accountability. The role of an energy entity’s board is to:

- decide the objectives, strategies, and policies of the authority
- ensure the entity performs its function in a proper, effective, and efficient way.

Members are generally appointed for a term of three years, with the option to extend at the end of the appointment term. More than 50 per cent of members have been with their respective entity for more than one term, while 14 per cent of members were appointed in 2020–21.

A mix of tenures provides an adequate understanding of the entity and its operations, coupled with fresh insights and perspectives from new members. The average number of board members, their term, and fees are summarised in Figure 2B.

Figure 2B
Board members of energy entities



Source: Compiled by the Queensland Audit Office.

Our report on appointing and renewing government boards, due to be tabled in early 2022, will evaluate the current guidelines, and will consider the makeup, diversity, and skill sets of board members.

Assessment tools for internal controls

We are developing new assessment tools for internal controls relevant to public sector entities. They will provide the entities with greater insight into the strength of their internal control processes.

These tools focus on asset management, change management, culture, governance, grants management, information systems, monitoring, procure-to-pay (the whole procurement process), record keeping, and risk management.

We are currently consulting with our clients on these tools and intend to begin using them in our audits from 2021–22. Our reporting on internal control deficiencies will not change.

3. Financial performance of energy entities

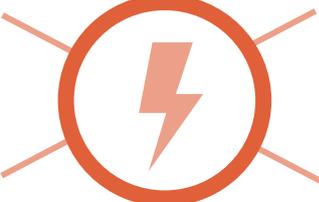
Chapter snapshot

\$0.5 bil.

Profits

▲ 136% from 2020

Energy sector



\$0.9 bil.

Returns to shareholders

▼ 14% from 2020

\$40.9 bil.

Assets

▼ less than 1% from 2020

\$1.1 bil.

Returns to customers

▼ 28% from 2020

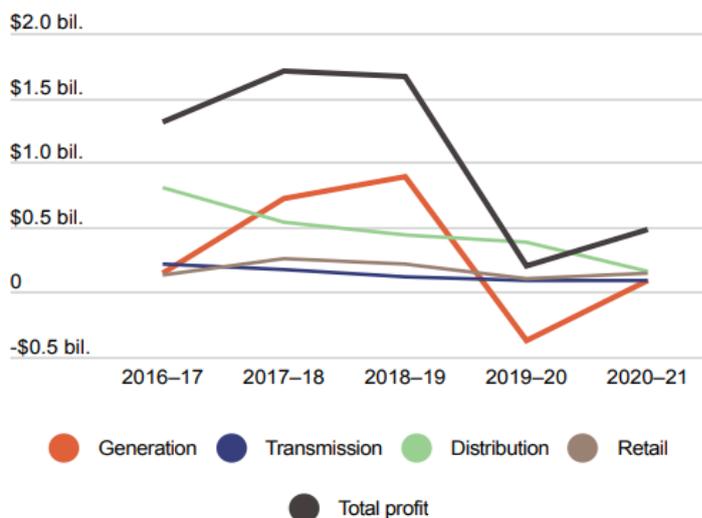
Future challenges

- Making the transition to renewable energy sources
- Coping with changes to market rules and regulations
- Reducing greenhouse emissions from electricity generation

Profits have increased for the sector

In 2020–21, the energy entities recorded a total profit of \$0.5 billion, which is an increase of \$0.3 billion (136 per cent) from the previous year.

Figure 3A
Energy sector’s profits—by supply chain element



Sector profits have increased largely due to the **generation** entities. This was primarily due to their power stations not decreasing in value as much as they did in 2019–20. Stanwell recorded a \$375 million profit in 2020–21.

Profits from the **distribution** business continue to decline due to revenue caps imposed by the Australian Energy Regulator (AER).

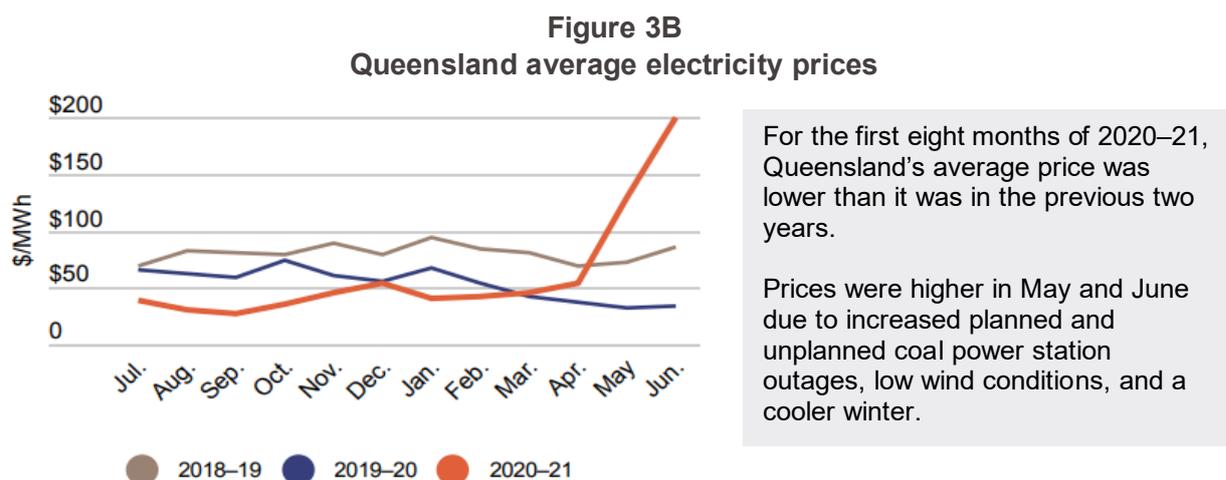
Source: Compiled by the Queensland Audit Office.



Electricity prices have reduced the value of the generators' power stations

Future electricity prices are forecast to decrease, which has affected the value of the generators' power stations. During the year, the generators 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 a result, the generators decreased the value of their power stations by \$253 million (\$1.1 billion in 2019–20).

Figure 3B shows that electricity prices in Queensland were lower for the first eight months of the year, before increasing in May and June 2021.



Note: MWh—a megawatt hour, which is equal to 1,000 kilowatts of energy used continuously for one hour.

Source: Compiled by the Queensland Audit Office from Australian Energy Market Operator (AEMO) data.

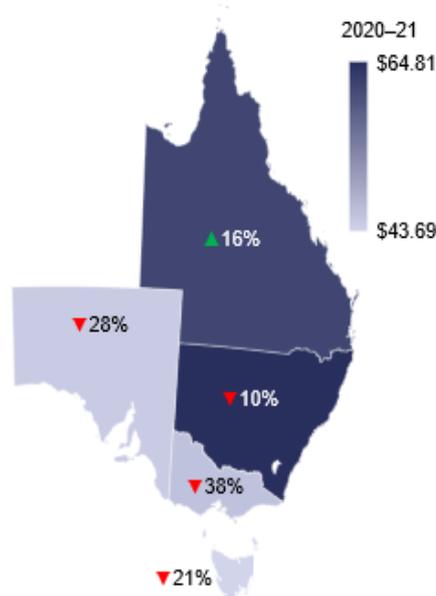
The Callide C incident was one of the causes of significant price volatility in the last quarter of 2020–21

The incident at Callide C power station significantly contributed to CS Energy's asset write-down and the price volatility in May and June 2021.

On 25 May 2021 an incident occurred on generating unit C4, which resulted in an explosion and substantial damage to the unit, forcing it offline. Subsequent to the outage, multiple other Queensland power stations and transmission lines tripped. This resulted in power blackouts across Queensland and an increase in electricity prices. Power was quickly restored across the state, and CleanCo and Stanwell assisted in meeting demand while Powerlink and Energy Queensland reconnected affected customers.

CS Energy has restored three of the four generating units at the Callide B and C power stations. The fourth unit is expected to be offline for at least the next 18 months. The incident impacted on CS Energy's financial results due to the loss of generation revenue, the cost of the damaged assets (\$11 million), and the decrease in value of the power station (\$104 million). CS Energy is seeking recovery from its insurer for material damage and business interruption.

Figure 3C
Movement in wholesale electricity prices in the National Electricity Market—2020–21



Note: The National Electricity Market (NEM) is the cross-state wholesale electricity market through which generators and retailers from the eastern and southern Australian states and territories trade electricity. Wholesale electricity prices are one component of retail electricity prices (with the other components being network and retail costs).

Source: Compiled by the Queensland Audit Office from AEMO data.

The price volatility in May and June 2021 resulted in Queensland being the only region in the National Electricity Market (NEM) to report an increase in its average wholesale electricity price in 2020–21, when compared with the prior year.

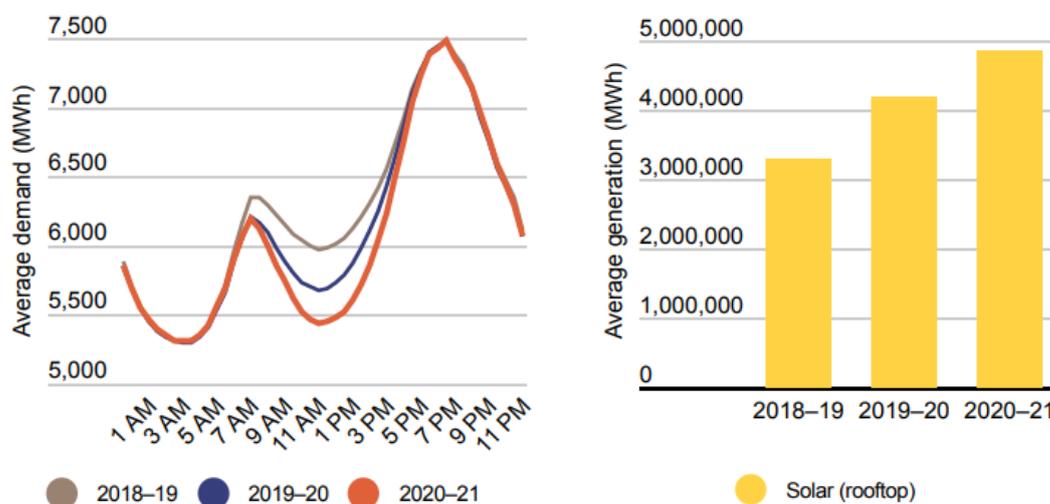
Generators and retailers manage fluctuations in wholesale electricity prices by entering into contracts with each other. They lock in a fixed price for electricity they will sell (generators) and buy (retailers).

Solar generation is reducing electricity demand and prices in the middle of the day

Solar generation of power has increased 66 per cent in the past two years, with 47 per cent of the increase coming from household rooftop solar. As solar generation is reliant on the sun, its peak output occurs in the middle of the day. Demand for electricity, however, typically rises in the evening when the sun is not shining. Battery storage will play an increasingly important role in the sector as generation from renewable sources increases.



Figure 3D
Queensland's midday electricity demand is decreasing as solar rooftop generation increases



Source: Compiled by the Queensland Audit Office from AEMO and Clean Energy Regulator (CER) data.

Average electricity bills have decreased

In the 2020–21 year, there was an overall reduction of seven per cent in the annual electricity bill for a typical residential customer and a four per cent reduction for a typical small business customer.

Powerlink's transmission revenue is expected to remain flat in 2021–22. However, in 2022–23, its revenue is expected to decrease due to a new determination by the Australian Energy Regulator, which limits the amount of revenue it can earn from its core business.

Distribution revenue is expected to remain flat for the next three years. A reduction in revenue may contribute to a continued decline in shareholder returns to the state government (which is the only shareholder).

Returns to shareholders and customers declined

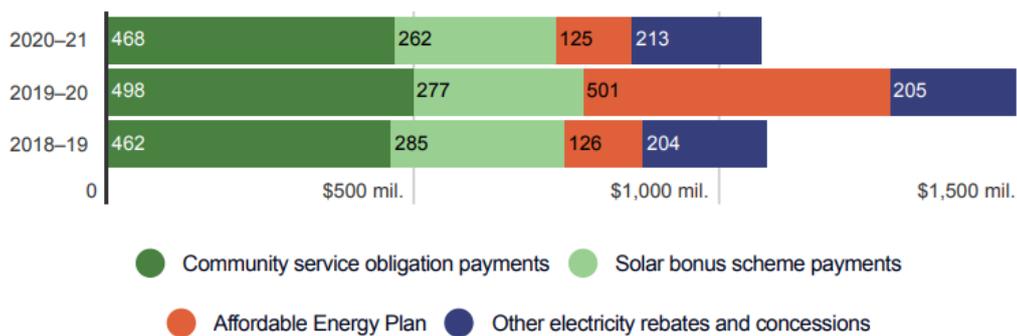
Returns to shareholders are made up of dividends (a share of profits paid to shareholders) and income tax equivalents (which are paid by commercial operations in government instead of tax). Total returns to the state government amounted to \$862 million, a decrease of \$141 million (14 per cent) from the previous year. This is mainly due to decreased profits from the distribution businesses.

Figure 3E shows that in 2020–21, the Queensland Government (including through Energy Queensland) returned \$1.1 billion to customers in rebates, concessions, and payments—down \$413 million from the previous year (noting additional COVID-19 relief payments were made in 2019–20).

Figure 3E
Returns to customers have decreased

In 2020, the Queensland Government paid \$404 million to assist households with the payment of electricity bills. Eligible small businesses also received payments of \$86 million. This was included in the **Affordable Energy Plan**. These COVID-19 utility relief payments were not extended to 2021. In 2020–21, there were \$213 million in **other electricity rebates and concessions**.

The government continued to support regional customers by making **community service obligation payments (CSO)** to Energy Queensland to subsidise the high costs of providing electricity to regional Queensland. Because the retail tariff rates reduced, CSO payments to Energy Queensland decreased by \$44 million compared to 2020. Without these payments, Ergon Energy Queensland would have recorded a loss of \$165 million in 2020–21.



Note: The Solar Bonus Scheme relates to payments made by Energy Queensland to customers for the power they contributed to the energy grid through their rooftop solar. Other electricity rebates and concessions mostly consists of payments made to eligible pensioners and seniors.

Source: Compiled by the Queensland Audit Office.

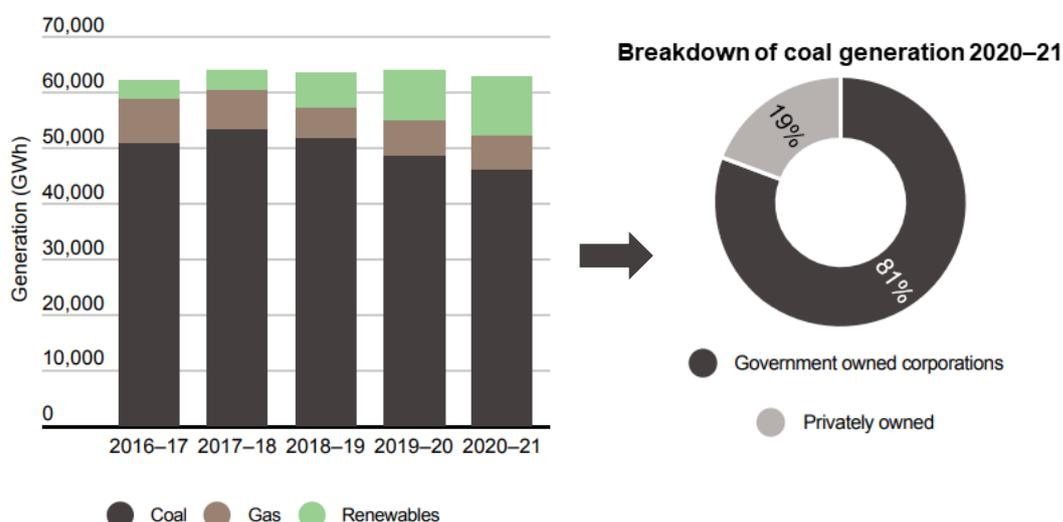
Future challenges for the energy sector

Generation from renewable energy sources is increasing

Stanwell’s and CS Energy’s power stations, which are predominantly coal-powered, generated 60 per cent of the state’s electricity in 2020–21, while CleanCo generated four per cent. The diversification to renewable energy sources, along with the planned retirement of existing coal power stations—with the first forecast closure in 2028 and the last in 2046—will see a change in the generation mix in Queensland.

Figure 3F shows the dominance of coal in Queensland’s generation profile in 2020–21. Energy generated from renewable sources is expected to replace coal as the power stations progressively retire. This change will impact on the generators’ operations and decisions about investing in assets.

Figure 3F
Renewable generation is increasing



Notes:

- GWh—a gigawatt hour, which is equal to 1,000 megawatts (MW) of energy used continuously for one hour.
- Generation amounts do not include generation from small-scale generators with capacity of less than 30 MW.

Source: Compiled by the Queensland Audit Office from AEMO and OpenNEM data.

In response to this shift, the generators are investing in renewable energy, mostly by entering into agreements to purchase power from privately constructed solar and wind farms.

Progress towards achieving the state's target of 50 per cent renewable energy consumption by 2030

Our recently tabled report, *Managing Queensland's transition to renewable energy* (Report 5: 2021–22), examined the state's transition to its 50 per cent renewable energy target by 2030. We found that Queensland's renewable energy consumption had increased to around 19 per cent in 2020–21.

While rooftop solar is still the greatest source of renewable power for the state, wind and large-scale solar generation have increased over the past five years. They now contribute over seven per cent (0.03 per cent in 2016–17).

The increased generation from renewable sources places greater pressure on the reliability of electricity generation and network infrastructure because sources such as solar and wind power are dictated by weather and can be unpredictable. The government's recently announced Queensland Renewable Energy Zones (in which it plans to invest in energy infrastructure and encourage new renewable generation projects) may partially address this issue, but further investments in network improvements are likely to be needed.

In the current year, Powerlink connected four renewable projects in Southern Queensland to the National Electricity Market. Next year, it is committed to connecting five renewable projects in Northern, Central, and Southern Queensland.

The government has announced a major investment in renewable and hydrogen projects

During the year, the Queensland Government announced a two billion dollar Queensland Renewable Energy and Hydrogen Jobs Fund. The new fund helps the energy entities to increase their ownership of renewable energy and hydrogen projects, including by supporting infrastructure development. Investment proposals submitted for consideration through the fund can be developed in partnership with the private sector.

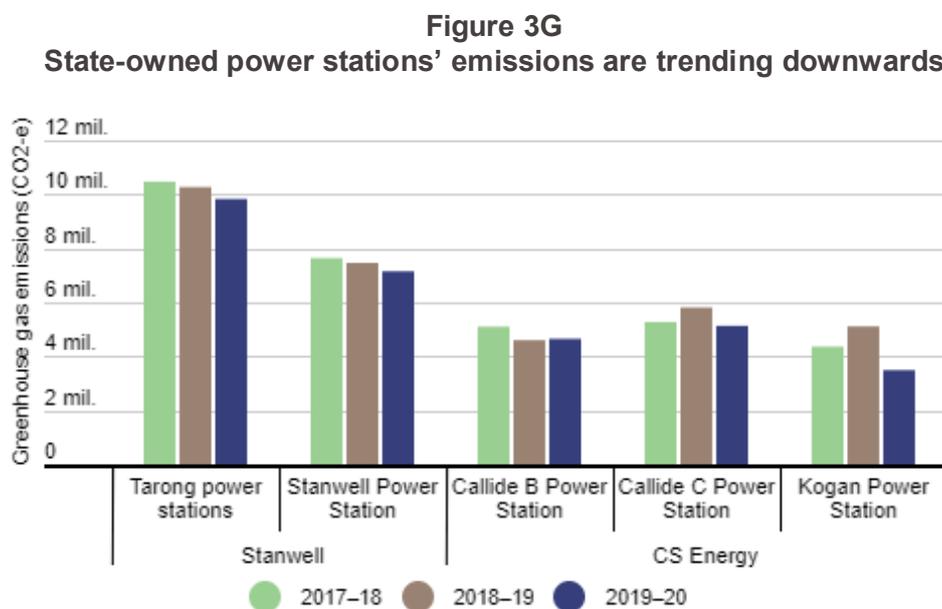
The energy entities continue to diversify their portfolios by announcing investments in renewable energy projects. During the year, this included projects for battery storage, solar thermal energy, partnerships with private investors to commence feasibility studies for hydrogen projects, and entering into purchase agreements for new renewable energy.

Rules are changing in the electricity market

From 1 October 2021, wholesale electricity prices will be determined every five minutes (instead of every 30 minutes). The energy entities estimate that they have spent \$45 million updating their information systems to ensure they are ready to operate under these new rules.

Greenhouse emissions from coal power stations

Electricity generation from coal power stations is one of the largest emitting industries. Figure 3G shows greenhouse gas emissions by state-owned coal power stations.



Note: 2020–21 emissions data is yet to be submitted to the Clean Energy Regulator.

Source: Compiled by the Queensland Audit Office from Clean Energy Regulator data.

The generators report annually on greenhouse emissions, energy consumption, and energy production to the Clean Energy Regulator under the National Greenhouse and Energy Reporting Scheme.

CS Energy and Stanwell are among the top 10 emitters in Australia. The emissions depend on the amount of electricity generated, quality of coal and plant maintenance. They mainly relate to the operation of Tarong, Stanwell, Callide and Kogan power stations. With the exception of Callide B, emissions from these power stations decreased.

The government owned corporations within the electricity sector are reducing their carbon footprint by investing in renewable energy and battery storage projects and exploring hydrogen investment opportunities.



Appendices

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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
- Treasurer and Minister for Trade and Investment
- Under Treasurer, Queensland Treasury.

We also provided a copy of this report with an invitation to respond to the:

- Premier and Minister for the Olympics
- Director-General, Department of the Premier and Cabinet
- Director-General, Department of Energy and Public Works
- 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.

This appendix contains the formal responses that we received.

The heads of these entities 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: MN08120-2021
Your Ref: PRJ02731

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01 DEC 2021

Mr Brendan Worrall
Auditor-General of Queensland
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002
By Email: qao@qao.qld.gov.au

Dear Mr Worrall *Brendan*

Thank you for your email of 22 October 2021 regarding the Queensland Audit Office (QAO) *Draft Queensland Energy Entities: 2020–21 Results of Financial Audits Report* (the Draft Report) and the opportunity to provide comments.

The Draft Report presents an informative overview of the energy sector entities in Queensland and I appreciate the consultative approach by the QAO. It is an exciting time in the energy sector and the Queensland Government is setting a clear vision for its government owned corporations and industry for the benefit of consumers.

In June 2021, the Premier and Minister for the Olympics announced the development of an Energy Plan for Queensland. The Energy Plan will establish a vision to achieve the 50 per cent Queensland Renewable Energy Target (QRET) by 2030.

I am pleased to advise that development of the Energy Plan is well underway.

The plan will outline Queensland's energy transformation including investment, job creation, and a secure, sustainable and affordable electricity supply. The plan will chart a clear pathway for the future of our energy system.

I appreciate the QAO has acknowledged the Queensland Government's announcement of the \$2 billion Queensland Renewable Energy and Hydrogen Fund (QREHJF). This new fund will support the energy entities increase their ownership of renewable energy and hydrogen projects by supporting infrastructure development for the benefit of Queenslanders.

All energy entities must have strong security practices to protect against cyberattacks, fraud, error and significant reputational damage.

It is noted that all energy entities continue to act on the recommendation from QAO's previous report, *Energy 2020* (Report 11: 2020-21), to strengthen the security of their information systems.

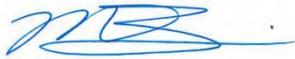
- 2 -

It is also noted that while entities took appropriate action to resolve the issues that QAO reported last year, the implementation of new information systems mean similar controls have been identified in this year's report.

I have asked the Chairs of each entity to prepare plans to significantly improve the maturity of approaches to security of information technology systems.

Thank you again for the opportunity to review and respond on the Draft Report.

Yours sincerely



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



Comments received from Under Treasurer, Queensland Treasury



Queensland Treasury

Our Ref: 05001-2021

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

Email: QAO.Mail@qao.qld.gov.au

Dear Mr Worrall

Thank you for your email of 22 October 2021 regarding the Queensland Audit Office (QAO) draft *Energy 2021* report (the Report) summarising the audit results of Queensland's six energy entities and providing opportunity for comment on a draft version. I acknowledge the efforts of the officers involved in developing the report.

I welcome that the QAO provided unmodified audit opinions on the 2020–21 financial statements for all the energy sector entities, and note the QAO's recommendation for all entities to continue to strengthen the security of their information systems.

Queensland's State-owned energy entities play a pivotal role in ensuring Queensland's energy supply remains affordable and reliable, which is crucial to Queensland's economy.

Due to public ownership of electricity assets, the Government has been able to implement a range of measures to support lower energy prices and greater energy affordability:

- Utility bill relief has been provided to households and businesses through the \$500 million COVID-19 utility relief package in 2019–20 and the \$100 million Asset Ownership Dividend in 2020–21. Over this period, more than 2 million Queensland households have received \$250 to help with their utilities, with small to medium businesses receiving \$500. A further \$50 Asset Ownership Dividend payment will be provided in 2021–22.
- Under the Uniform Tariff Policy, the government provides around \$500 million per annum to offset energy costs and ensure electricity prices in regional Queensland are comparable to prices in south-east Queensland.
- The Electricity Rebate Scheme also provides a rebate of up to approximately \$341 per annum to assist with the cost of domestic electricity supply to the home of eligible Pensioner Concession Card, Health Care Card, Queensland Seniors Card and Department of Veterans' Affairs Gold Card holders.

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Website www.treasury.qld.gov.au
ABN 90 856 020 239

More broadly, in 2021–22, retail electricity prices have fallen for Queensland households and businesses for the fourth consecutive year.

I note the QAO's observations regarding the future challenges for the sector. While these challenges are not unique to Queensland, there are also significant opportunities across the energy sector that Queensland is well-placed to leverage. As the Report highlights, generation from renewable energy sources is increasing, and Queensland's State-owned energy entities are diversifying their portfolios as part of the energy transformation.

The Queensland Government continues to deliver a range of policy and investment initiatives to lower emissions, support new renewable energy and hydrogen investment, and create jobs in Queensland, including through the \$2 billion *Queensland Renewable Energy and Hydrogen Jobs Fund*. The Fund allows energy Government owned corporations to increase investment in commercial renewable energy and hydrogen projects, as well as supporting infrastructure, including in partnership with the private sector.

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

[redacted] who will be pleased to assist.

Yours sincerely



Leon Allen
Under Treasurer

15 1 11 2021



B. Legislative context

Frameworks

Energy entities prepare their financial statements in accordance with the following legislative frameworks and reporting deadlines.

Figure B1
Legislative frameworks for the energy sector

Entity type	Entity	Legislative framework	Legislated deadline
Government owned corporations	<ul style="list-style-type: none"> CleanCo Queensland Limited CS Energy Limited Energy Queensland Limited Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland) Stanwell Corporation Limited 	<ul style="list-style-type: none"> <i>Government Owned Corporations Act 1993</i> <i>Corporations Act 2001</i> Corporations Regulations 2001 	31 August 2021
Controlled entities	<ul style="list-style-type: none"> Ergon Energy Queensland Pty Ltd 	<ul style="list-style-type: none"> <i>Corporations Act 2001</i> Corporations Regulations 2001 	31 October 2021

Source: Compiled by the Queensland Audit Office.

Accountability requirements

The *Government Owned Corporations Act 1993* establishes four key principles for government owned corporations:

- clarity of objectives
- management autonomy and authority
- strict accountability for performance
- competitive neutrality (meaning they should not have a competitive advantage over the private sector because they are owned by the government).

Queensland state government financial statements

Each year, Queensland state public sector entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For these statements to be useful, the information reported must be relevant and accurate.

The Auditor-General's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We *modify* our audit opinion when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.



C. Status of recommendations made in *Energy 2020* (Report 11: 2020–21)

Our report, *Energy 2020* (Report 11: 2020–21), identified the following recommendation for energy sector entities. These entities have taken appropriate action for the recommendation to resolve prior year issues. However, we continue to identify significant control weaknesses in the security of information systems, and this remains a recommendation for energy entities in 2021.

Figure C1
Status of the recommendation from last year's report

Strengthen the security of information systems (all entities)	Further action needs to be taken
<p>REC 1 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.</p> <p>Their workplace culture, through their people and processes, must emphasise strong security practices to provide a foundation for the security of information systems.</p> <p>Entities should:</p> <ul style="list-style-type: none"> • 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), in particular 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. <p>Entities should also self-assess against all of the recommendations in our report—<i>Managing cyber security risks</i> (Report 3: 2019–20)—to ensure their systems are appropriately secured.</p>	<p>We continue to identify control deficiencies relating to assigning and monitoring user access.</p> <p>Entities have undertaken the following to strengthen the security of information systems:</p> <ul style="list-style-type: none"> • regularly reviewing user access to ensure it remains appropriate • implementing strong password practices in line with the state's recommendations (for example, a minimum of eight-character passwords) • monitoring and reviewing the actions of users with privileged access • implementing policies and processes to identify critical security vulnerabilities. <p>Although the entities have undertaken the above actions, we continue to identify control deficiencies in relation to information systems.</p> <p>We recommend all energy entities continue practising and implementing policies and processes to strengthen the security of their information systems.</p>

Source: Queensland Audit Office.

Where a general recommendation has been made for all entities to consider, we have assessed action on issues reported to specific entities in the prior year, as well as any further issues identified in the current year. On this basis, we have concluded whether *appropriate action has been taken* across the sector, or if *further action needs to be taken* to address the risk identified.

Status	Definition
Appropriate action has been taken	Recommendations made to individual entities have been implemented, or alternative action has been taken that addresses the underlying issues and no further action is required. No new issues have been identified across the sector that indicate an ongoing underlying risk to the sector that requires reporting to parliament.
Further action needs to be taken	Recommendations made to individual entities have not been fully implemented, and/or new recommendations have been made to individual entities, indicating further action is required by entities in the sector to address the underlying risk.



D. Audit opinions for entities preparing financial reports

Audits of financial statements

The following table details the types of audit opinions we issued, in accordance with Australian auditing standards for the 2021 financial year.

Figure D1
Our opinions for energy sector financial reports for 2020–21

Element of energy supply chain	Entity	Date audit opinion issued	Type of audit opinion issued
Generation	CleanCo Queensland Limited	27.08.2021	Unmodified
	CS Energy Limited	27.08.2021	Unmodified
	Stanwell Corporation Limited	27.08.2021	Unmodified
Transmission	Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)	26.08.2021	Unmodified
Distribution	Energy Queensland Limited	20.08.2021	Unmodified
Retail	Ergon Energy Queensland Pty Ltd	18.08.2021	Unmodified

Note: We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

Source: Compiled by the Queensland Audit Office.

Regulatory information notices

The Australian Energy Regulator (AER) regulates the amount of income transmission and distribution entities can earn. To monitor outcomes and prepare for future determinations, it uses regulatory information notices.

The AER issued new revenue determinations for Energex and Ergon (the distribution businesses of Energy Queensland) covering a new five-year regulatory control period of 2020–2025. These determinations have reset Energy Queensland's revenue allowance for its regulated businesses to the lowest level ever since the businesses became regulated.

For the year ended 30 June 2021, Energex and Ergon have completed a set of templates, along with a 'basis of preparation', which describes how each template has been prepared for submission to AER. 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).



Figure D2
Results of 2020–21 audits and reviews of Energex and Ergon annual regulatory notices

Type of information provided	Certification date	Type of report issued
Financial	25.11.2021 (Energex)	(4) Unmodified audit opinions (3) Unmodified review conclusions
	25.11.2021 (Ergon)	(4) Unmodified audit opinions (3) Unmodified review conclusions
Non-financial	25.11.2021 (Energex)	(4) Unmodified review conclusions
	25.11.2021 (Ergon)	(4) Unmodified review conclusions

Source: Compiled by the Queensland Audit Office.

Australian financial services licences

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

Figure D3
Results of 2020–21 audits of Australian financial services licences

Entity	Certification date	Type of opinion issued
CleanCo Queensland Limited	13.09.2021	Unmodified
CS Energy Limited	22.09.2021	Unmodified
Ergon Energy Queensland Pty Ltd	22.09.2021	Unmodified
Stanwell Corporation Limited	26.08.2021	Unmodified

Source: Compiled by the Queensland Audit Office.

Other audit certifications

This year we issued two additional audit certifications. We performed a review (limited assurance) over Powerlink's transmission network support cost to assess Powerlink's actual increase in network support payments.

We also audited the income and expenditure for the feasibility study on Stanwell's hydrogen project. We assessed if this was prepared in line with National Electricity Rules and related procedural guidelines. This project was partially funded by the Australian Renewable Energy Agency as part of the Advancing Renewables Program.

Figure D4
Results of 2020–21 other audit certifications

Entity	Certification	Certification date	Type of report issued
Powerlink Queensland	Transmission network support cost	04.08.2021	Unmodified review conclusion
Stanwell Corporation Limited	Statement of income and expenditure for the feasibility study for the hydrogen project	04.08.2021	Unmodified audit opinion

Source: Compiled by the Queensland Audit Office.



E. Entities not preparing financial reports

When entities are part of a group and are secured by a deed of cross guarantee (with other entities in that 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 will not issue audit opinions for the following entities for 2020–21, as they were not required to produce financial statements.

Figure E1
Energy sector entities not preparing financial reports in 2020–21

Public sector entity	Reason for not preparing financial statements
Generation	
Controlled entities of CS Energy Limited	
Aberdare Collieries Pty Ltd	Deed of cross guarantee ASIC order
Callide Energy Pty Ltd	Deed of cross guarantee ASIC order
CS Energy Group Holdings Pty Ltd	Dormant
CS Energy Group Operations Holdings Pty Ltd	Dormant
CS Kogan (Australia) Pty Ltd	Deed of cross guarantee ASIC order
CS Energy Kogan Creek Pty Ltd	Deed of cross guarantee ASIC order
CS Energy Oxyfuel Pty Ltd	Deed of cross guarantee ASIC order
Kogan Creek Power Pty Ltd	Deed of cross guarantee ASIC order
Kogan Creek Power Station Pty Ltd	Deed of cross guarantee ASIC order
T75 CS Energy Segregated Cell of White Rock Insurance (SAC) Ltd	Deed of cross guarantee ASIC order



Public sector entity	Reason for not preparing financial statements
Controlled entities of Stanwell Corporation Limited	
Energy Portfolio 1 Pty Ltd	Dormant
Glen Wilga Coal Pty Ltd	Dormant
Goondi Energy Pty Ltd	Non-reporting
Mica Creek Pty Ltd	Deed of cross guarantee ASIC order
SCL North West Pty Ltd	Deed of cross guarantee ASIC order
Tarong Energy Corporation Pty Ltd	Dormant
Tarong Fuel Pty Ltd	Deed of cross guarantee ASIC order
Tarong North Pty Ltd	Non-reporting
TEC Coal Pty Ltd	Deed of cross guarantee ASIC order
TN Power Pty Ltd	Deed of cross guarantee ASIC order
Transmission	
Controlled entities of Powerlink	
Harold Street Holdings Pty Ltd	Non-reporting
Powerlink Transmission Services Pty Ltd	Non-reporting
Queensland Capacity Network Pty Ltd	Non-reporting
Distribution	
Controlled entities of Energy Queensland Limited	
Energex Limited	Deed of cross guarantee ASIC order
Ergon Energy Corporation Limited	Deed of cross guarantee ASIC order
Ergon Energy Telecommunications Pty Ltd	Non-reporting
Metering Dynamics Pty Ltd	Non-reporting
SPARQ Solutions Pty Ltd	Non-reporting
Varnsdorf Pty Ltd	Dormant
VH Operations Pty Ltd	Dormant
Yurika Pty Ltd	Deed of cross guarantee ASIC order

Note: An entity controlled by another entity in terms of decision-making in relation to financial and operating policies is referred to as a 'controlled entity'.

Source: Compiled by the Queensland Audit Office.



F. Financial results

Figure F1
Energy sector entities—for the year ended 30 June 2021

Amounts in \$'000								
Entity	Total assets	Total liabilities	Total income	Total expenses (incl. tax)	Operating result after tax	Returns to shareholders	Finance costs	Total borrowings
CleanCo	464,674	237,739	253,615	269,532	(15,917)	(9,277)	1,976	-
CS Energy	1,862,062	1,697,612	1,084,883	1,351,018	(266,135)	(114,049)	38,450	557,353
Energy Queensland	26,754,000	23,125,000	4,906,000	4,604,000	302,000	348,000	681,000	18,164,000
Powerlink	8,307,647	6,451,815	985,208	898,239	86,969	368,542	220,220	5,242,228
Stanwell	3,555,278	2,592,901	2,735,632	2,360,195	375,437	268,686	54,041	829,236
Total	40,943,661	34,105,067	9,965,338	9,482,984	482,354	861,902	995,687	24,792,817
Ergon Energy Queensland	696,840	475,752	1,890,636	1,745,603	145,033	162,271	533	-

Note: The results of Ergon Energy Queensland are included in the results of Energy Queensland.

Source: Compiled by the Queensland Audit Office.

Figure F2
Energy sector entities—for the year ended 30 June 2020

Amounts in \$'000								
Entity	Total assets	Total liabilities	Total income	Total expenses (incl. tax)	Operating result after tax	Returns to shareholders	Finance costs	Total borrowings
CleanCo	418,296	149,714	106,775	156,372	(49,597)	(17,592)	4,501	-
CS Energy	2,405,510	1,777,829	1,285,475	1,363,075	(77,600)	40,313	56,359	557,353
Energy Queensland	26,042,000	22,692,000	4,863,000	4,380,000	483,000	651,000	714,000	17,355,000
Powerlink	8,365,933	6,464,125	970,762	882,186	88,576	200,797	233,470	5,265,221
Stanwell	3,782,859	2,648,257	3,193,981	3,434,245	(240,264)	128,028	62,896	821,419
Total	41,014,598	33,731,925	10,421,065	10,216,950	204,115	1,002,546	1,071,226	23,998,993
Ergon Energy Queensland	1,151,292	1,151,292	2,038,219	1,933,480	104,739	57,973	822	-

Note: The results of Ergon Energy Queensland are included in the results of Energy Queensland.

Source: Compiled by the Queensland Audit Office.



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