



Energy: 2016–17 results of financial audits

Report 9: 2017–18

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Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to all relevant agencies, as per the list at Appendix A. In reaching our audit conclusions, we have considered their view and represented them to the extent we deemed relevant and warranted in preparing this report.

We received a response from the Deputy Premier, Treasurer, Minister for Aboriginal and Torres Strait Islander Partnerships, Queensland Treasury. The response is in Appendix A.

Report cost

This audit report cost \$105 000 to produce.



Your ref:
Our ref: 11631



20 February 2018

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

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Energy: 2016–17 results of financial audits* (Report 9: 2017–18).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'B. Worrall', is positioned above the printed name.

Brendan Worrall
Auditor-General

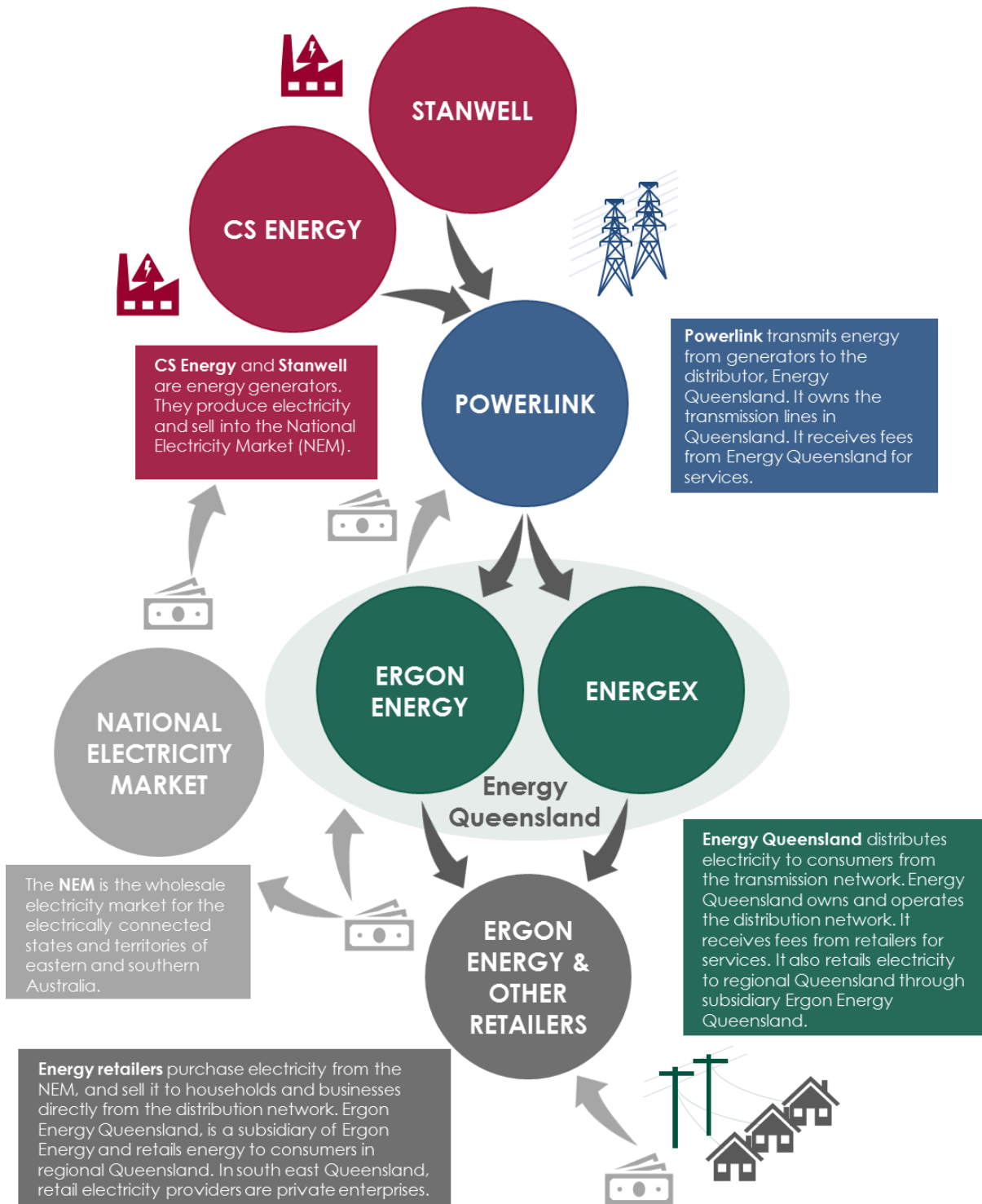
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Summary

This report summarises the results of our financial audits of the Queensland Government’s energy entities.

Figure A
Queensland energy entities included in this report



* Energy generators and retailers manage price risk relating to changes in the price of electricity in the National Electricity Market using hedging strategies.

Source: Queensland Audit Office.

Results of our audits

We issued unmodified audit opinions for the financial statements of each entity. We do this when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. In doing so, we confirm that readers can rely upon the audited financial statements of the energy entities. All entities have strong year end close processes that have allowed them to produce high quality financial statements in a timely manner.

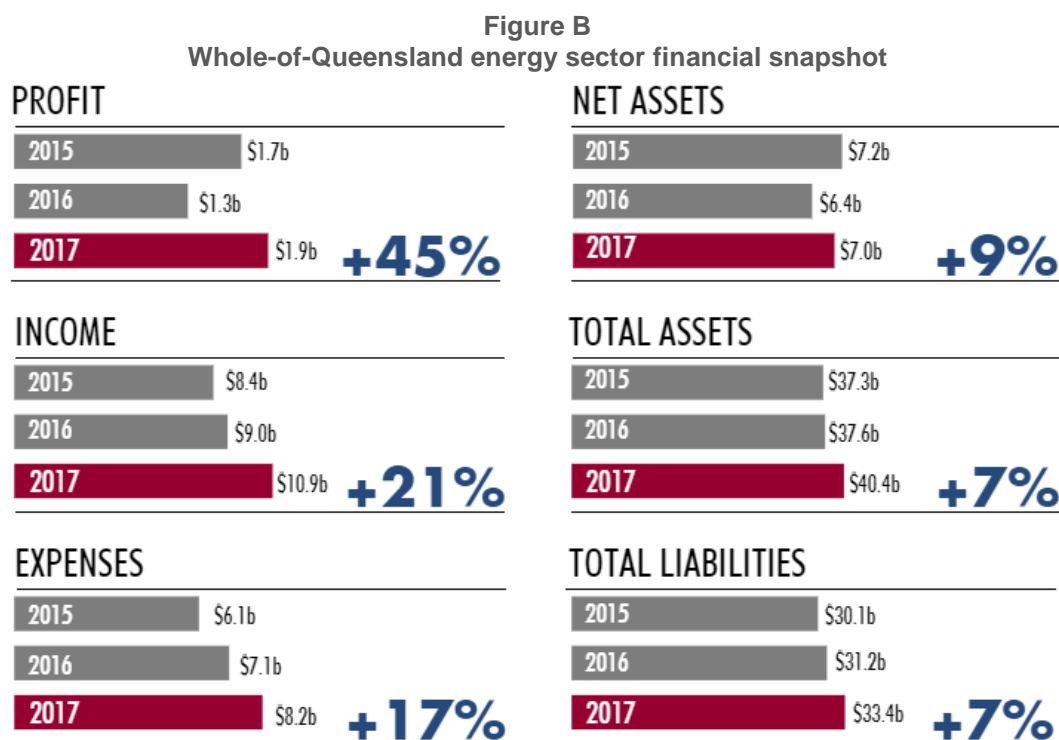
We also considered the 'regulatory information notices' Energex and Ergon provided to the Australian Energy Regulator (AER). The AER specifies the income the entities can earn. In doing so, it issues notices for information from the entities. These notices are subject to an audit or a review, depending on whether they are based on actual data or estimated data.

We issued six unmodified audit opinions on actual information and six conclusions about estimated data to Energex and Ergon for the regulatory information notices they submitted to AER.

All audits were completed within legislative and AER deadlines.

The energy sector includes 31 government owned corporation subsidiaries. Ergon Energy Queensland is the only government owned corporation subsidiary that prepares separate financial statements. The remainder either have an exemption from the Australian Securities and Investment Commission or are not required to prepare financial statements under the *Corporations Act 2001* (as they are dormant or small companies).

Financial performance, position, and sustainability



Source: Queensland Audit Office.

The increased profitability of the energy sector was primarily due to the profitability of the energy generators (CS Energy and Stanwell) in 2016–17. This year, their income increased by \$1.2 billion, while expenses increased by \$614 million. This resulted in an increase in profit from energy generators of \$511 million from 2015–16.

The energy generators sell energy into the National Electricity Market (NEM) at market rates. In 2016–17, average market energy prices rose to record highs. This increase in price increased generation income without impacting on operating expenses. Demand for energy generation also increased in 2016–17, resulting in the generators increasing production by 24 per cent and increasing both income and operating expenses.

During Q1 2017, Queensland experienced record maximum electricity demand due to several factors including; aging/closing of power stations and gas supply restrictions in southern states; uncertain carbon policy at the federal level; and increased demand at peak times including a particularly hot summer in 2017.

Entities record an impairment loss when an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset. If the amount which can be recovered later increases, the impairment can be reversed. The generators' profitability was further increased by CS Energy reversing historical impairment losses of \$242 million due to improved certainty and reliability of coal supply to two of their three power stations.

Total assets for the entities increased by \$2.8 billion (seven per cent) from 2015–16. This growth was primarily due to an increase of \$724 million to property, plant, and equipment. Queensland Government's \$771 million Solar Bonus Scheme payment made to Energy Queensland Limited (Energy Queensland) increased their cash position. This cash was subsequently included in Energy Queensland's advance to the state under the Queensland Government's cash management arrangements, which decreased cash holdings and increased receivables.

Total liabilities for the entities increased by \$2.2 billion (seven per cent) from 2015–16. This increase was primarily due to:

- Energy Queensland paid its dividend to the state government at a different time to the prior year. In 2015–16 the dividend was both declared and paid by 30 June 2016. In 2016–17, the dividend was declared but not paid and instead was recorded as a \$881 million liability at 30 June 2017.
- Energy Queensland received a Solar Bonus Scheme payment from the state government. As this income has not yet been earned, Energy Queensland recorded a \$771 million liability at 30 June 2017.

Borrowings remained unchanged in 2016–17.

Dividends declared to the state government increased by \$155 million (11 per cent) from 2016. This increase was due to the increase in profitability of the generators.

Internal controls

We did not identify any significant deficiencies in internal controls.

We assessed the control environments of all energy entities as effective, and we could rely on the internal control systems used to produce financial statements.

Energy Queensland Limited

Energy Queensland Limited (Energy Queensland) was established on 30 June 2016. It took control of the Energex and Ergon Energy groups to merge electricity distribution across the state. The purpose of this structural change was to lower energy prices in the long term by removing the duplication of distribution activities.

In 2017, Energy Queensland returned a profit of \$881 million (2016: \$942 million). This decrease of \$61 million (six per cent) was attributable to increased finance costs of \$148 million due to increased borrowings, as well as an increase of \$78 million in transmission charges. Transmission charges are passed through to Energy Queensland's customers. These increases in expenses were partly offset by a \$134 million increase in retail sales income.

Auditor-General reports to parliament

Reports tabled in 2017–18

Number	Title	Date tabled in Legislative Assembly
1.	Follow-up of Report 15: 2013–14 Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017
4.	Integrated transport planning	December 2017
5.	Water: 2016–17 results of financial audits	December 2017
6.	Fraud risk management	February 2018
7.	Health: 2016–17 results of financial audits	February 2018
8.	Confidentiality and disclosure of government contracts	February 2018
9.	Energy: 2016–17 results of financial audits	February 2018

Contact the Queensland Audit Office

