



FINANCIAL AUDIT REPORT

4 February 2021

Energy 2020

Report 11: 2020–21

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
- 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. Depending on the level of assurance we can provide, these reports may also take the form of:
 - Audit insights, which provide some evaluation and share our insights or learnings from our audit work across government
 - Audit briefs, which set out key facts, involve some evaluation, and may include findings and recommendations
 - Audit overviews, which help clients and stakeholders understand complex issues and subjects.

Learn more about our publications on our [website](#).

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

4 February 2021

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



Brendan Worrall
Auditor-General



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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; while 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. All entities prepared their financial statements in a timely manner.

Entities should strengthen the security of their information systems

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 in a timely manner.

Sector profitability continues to decline

While the energy sector is still financially viable, its profits have declined significantly.

Queensland continues to have the lowest wholesale electricity prices in the National Electricity Market, and they have reduced further this year. This influences the price customers pay, but also contributes to the significant reduction in revenues and values of assets for the generators.

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.

Future challenges

The energy sector is undergoing significant change. Our electricity system needs to adapt to these changes to ensure affordable and reliable electricity supply for Queenslanders.

Coal-fired power plants are scheduled to progressively be retired over the next 26 years. As this occurs, their capacity is expected to be replaced by more renewables. 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.



Recommendations for entities

We have identified the following recommendation:

Strengthen the security of information systems (all entities)	
<u>REC 1</u>	<p>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), 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. <p>Entities should also self-assess against all of the recommendations in <i>Managing cyber security risks</i> (Report 3: 2019–20) to ensure their systems are appropriately secured.</p>



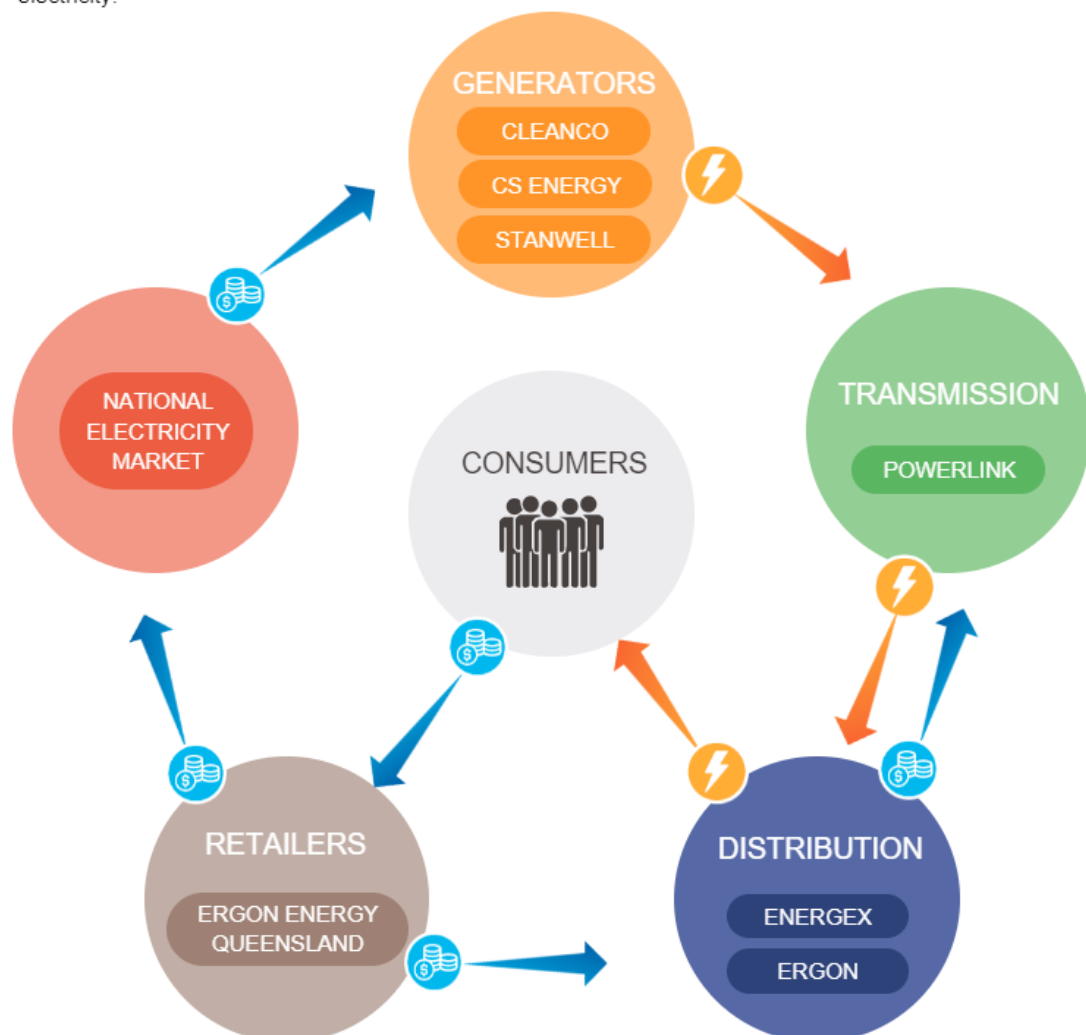
1. Overview of entities in this sector

In Queensland, state government owned corporations generate, transmit, and distribute most of the state's electricity. The following diagram shows the state-owned entities' 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.



Note:

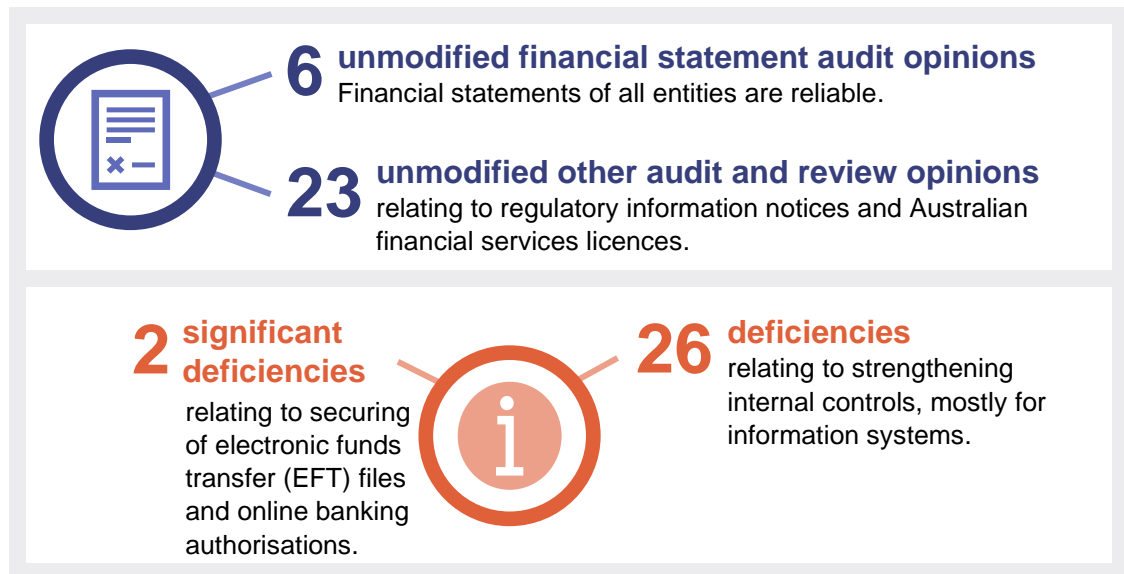
- The National Electricity Market is the cross-state wholesale electricity market where generators and retailers trade electricity. Stanwell and CS Energy also participate in the retail market.
- Energex, Ergon, and Ergon Energy Queensland are subsidiaries of Energy Queensland Limited.

Source: Compiled by Queensland Audit Office.

2. Results of our audits

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

Chapter snapshot



Note:

- Regulatory information notices are used to collect information from the transmission and distribution entities to assist the Australian Energy Regulator 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 for all six energy entities in Queensland, which means we believe the results in their financial statements can be relied upon. All entities met their legislative deadlines for issuing their annual reports. Appendix C details the audit opinions we issued for energy entities in 2019–20.

Not all entities in the energy sector need to prepare financial statements. Appendix D lists the entities that do not prepare financial statements and the reasons why.

Other audit certifications

We also provided assurance over regulatory information notices and Australian Financial Services Licences.

For the regulatory notices, if the information is based on actual data, we conduct an audit. If the information is based on estimated data, we conduct a review. We have issued eight unmodified audit opinions and 11 unmodified review conclusions for these audits.



The information included with the regulatory information notices can be relied upon and the entities fulfilled their obligations under their financial services licenses during the year. Appendix C lists the audit certifications we issued.

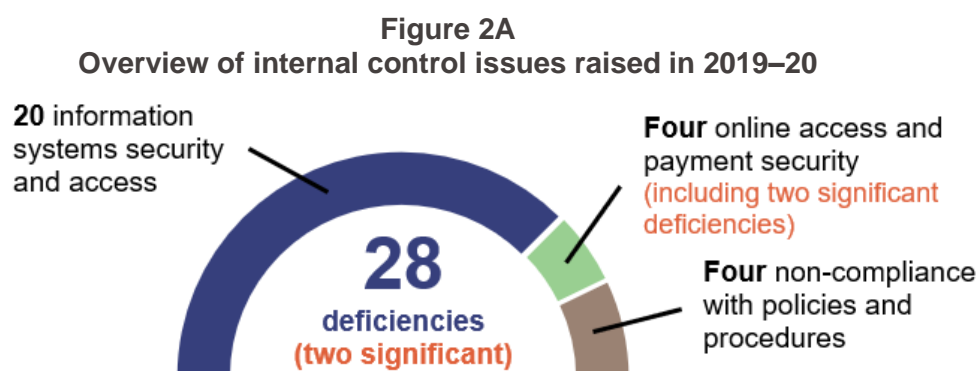
Entities assessed their financial statement preparation processes as mature

We worked with the energy entities as they undertook a self-assessment of their financial statement preparation processes using the maturity model on our [website](#). The entities concluded that their strengths across the sector included quality month-end processes and timely resolution of financial reporting matters. Most entities identified an opportunity to minimise manual adjustments to their financial statements.

Entities should strengthen their information systems

In 2019–20, we found the internal controls energy entities have in place (to ensure reliable financial reporting) are generally effective. While we were able to rely on them, we identified two significant deficiencies (high-risk issues) in internal controls—both related to security of online payments. These issues have been resolved.

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



Source: Compiled by Queensland Audit Office.

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.

Recommendation for all entities

Strengthen the security of information systems (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.

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.




3. Financial performance of energy entities

Chapter snapshot



Energy sector

\$0.2 bil.		\$1.0 bil.
Profits		Returns to shareholders
▼ 88% from 2019		▼ 54% from 2019
\$41.0 bil.		\$1.5 bil.
Assets		Returns to customers
▲ 1% from 2019		▲ 37% from 2019



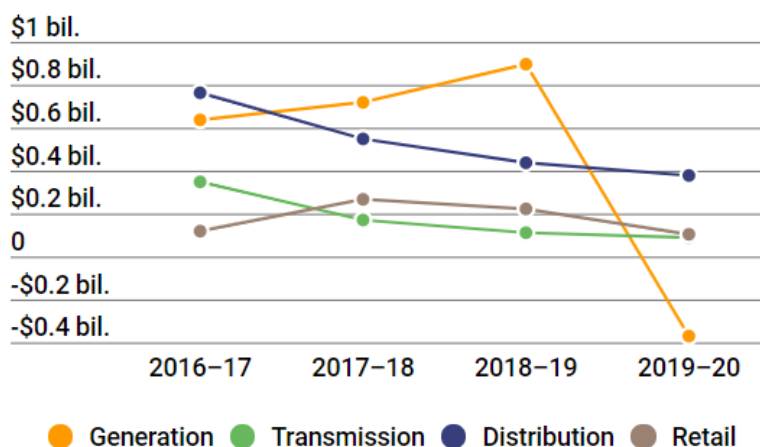
Future challenges

- Making the transition to renewable energy sources
- Maintaining system stability while integrating renewables into the grid
- Coping with changes to market rules and regulations

Sector profits have declined

In 2019–20, the energy entities recorded a combined profit of \$204 million. This was a decrease of \$1.5 billion (88 per cent) from the previous year. Figure 3A shows that this profit reduction was largely due to the generators (CleanCo, CS Energy and Stanwell), because of lower electricity prices.

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



Lower electricity prices resulted in combined net losses of \$367 million for the generators. Lower electricity prices resulted in less generation revenue and a decline in the value of power stations.

Transmission, distribution, and retail entities all reported net profits, but they were 26 per cent lower than the previous year.

Source: Compiled by Queensland Audit Office.



Lower electricity prices caused coal and gas power stations to decline in value

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:

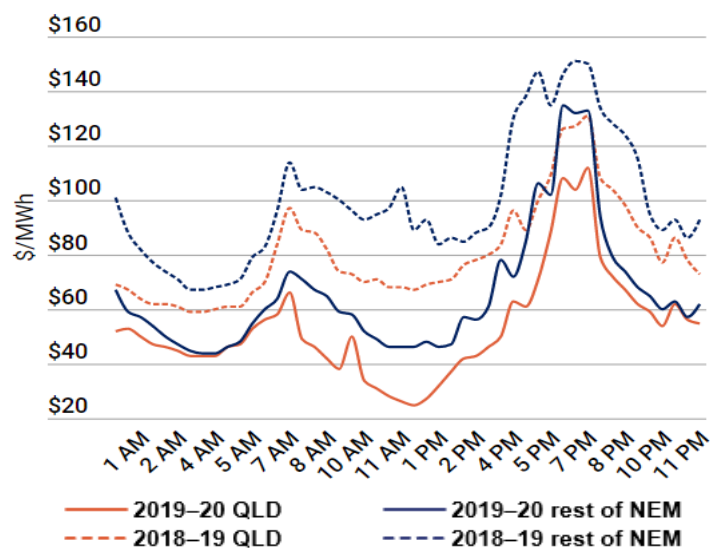
- reduced electricity demand as a result of COVID-19
- increased generation from renewable sources
- lower gas prices—which increased the electricity supply from gas power stations.

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.

Queensland continues to record the lowest electricity prices in the National Electricity Market

Queensland’s wholesale electricity price fell on average by \$27 per megawatt hour (33 per cent) compared to 2018–19. Figure 3B shows this decline in electricity prices compared to 2018–19 and also compared to the rest of the states in the National Electricity Market (NEM).

Figure 3B
Average daily electricity prices



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

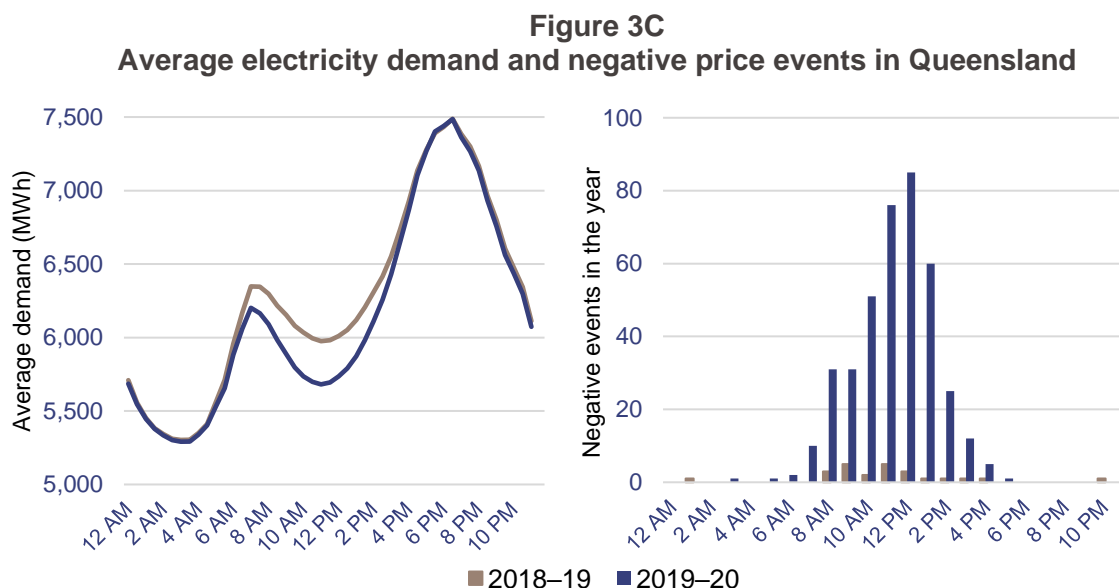
Source: Compiled by Queensland Audit Office from Australian Energy Market Operator (AEMO) data.



Increasing generation of solar power is affecting electricity demand and prices

Increased solar generation during the middle of the day has meant that, on occasion, supply for electricity is so much greater than demand that power generators have had to pay the market to take the electricity they generate. This is referred to as a 'negative price event'.

Figure 3C shows the reduced electricity demand in the middle of the day, primarily due to increased rooftop solar generation, and the increase in negative price events.



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

Lower energy prices in the middle of the day will result in increased losses for the energy generators if they cannot adapt to changes in energy demand.

Generators and retailers manage their risk from fluctuations in electricity prices by entering into contracts with each other. Typically, they lock in a fixed price for electricity they will sell (generators) and buy (retailers). Due to lower electricity prices, these contracts declined in value in the 2019–20 year. This resulted in a \$331 million decrease in profits and a \$618 million decrease in equity (overall value) for the sector.

Average electricity bills are expected to decrease due to lower network charges

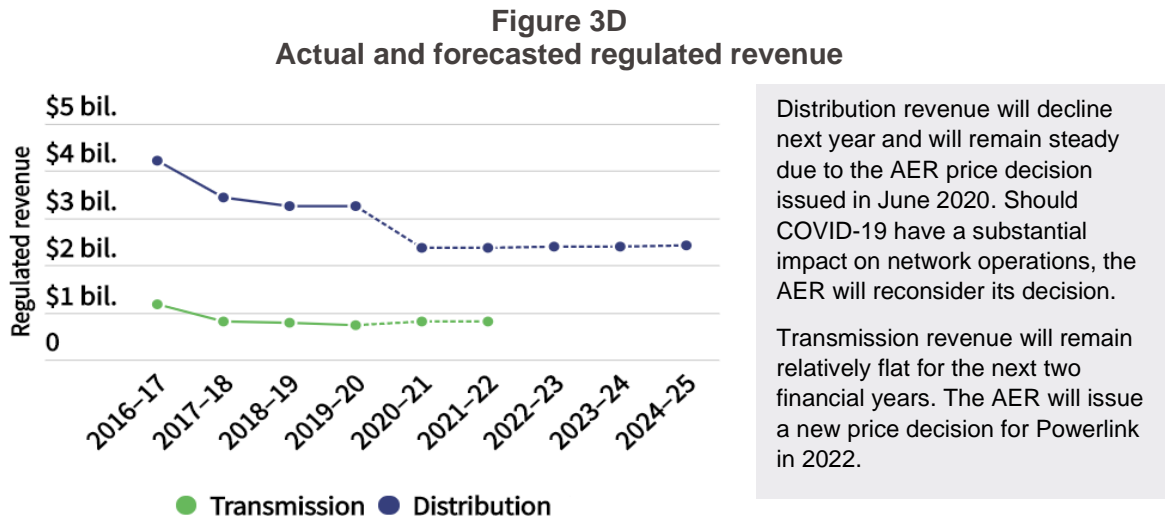
The Australian Energy Regulator (AER) issues 'revenue determinations', which specify how much distribution and transmission entities can charge their customers for network services. The determinations last for five years and cap the amount of revenue network entities can earn from their core business.

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.

Figure 3D shows the actual and expected regulated revenue for the transmission and distribution entities (Powerlink and Energy Queensland), based on AER decisions.



Note: The forecasted revenue figures do not take into account inflation.

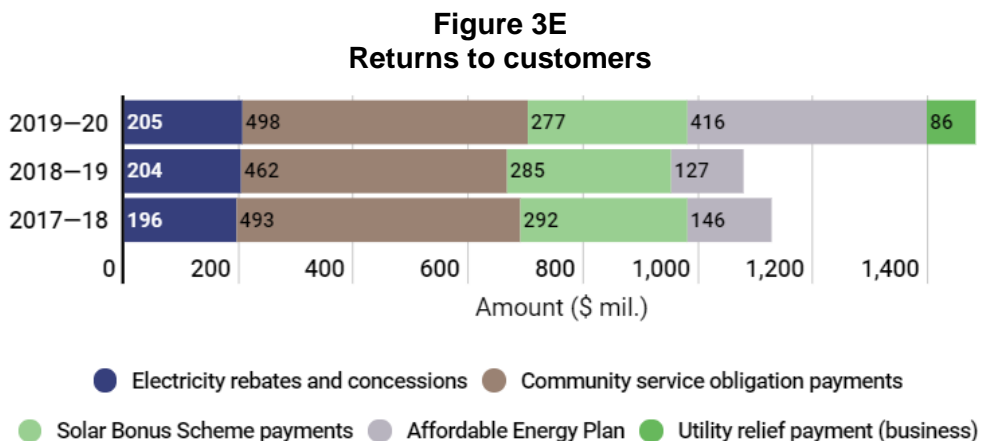
Source: Compiled by Queensland Audit Office from Powerlink and Energy Queensland’s annual reports and AER determinations.

This reduction in distribution revenue will place further pressure on Energy Queensland to manage its operational and network costs. A reduction in revenue will likely result in decreased shareholder returns to the state government.

Returns to shareholders declined but returns to customers increased

Returns to the state government are made up of dividends (a share of profits paid to shareholders) and income tax equivalents. Total returns to the state government amounted to \$1.0 billion, a decrease of \$1.2 billion (54 per cent) from the previous year.

In 2019–20, the Queensland Government returned \$1.5 billion to customers in rebates, concessions, and payments—up \$403 million from the previous year. This increase is largely due to the electricity bill relief provided by the government during COVID-19. Figure 3E shows the returns to customers for the last three years.



Note: The Affordable Energy Plan amount for 2019–20 includes the additional utility relief payment (residential) made under the Queensland Government’s COVID-19 economic relief package.

Source: Compiled by Queensland Audit Office.

The government continued to support regional customers

The state government subsidises the cost of providing electricity in regional Queensland through what is known as community service obligation payments to Ergon Energy Queensland. The cost is high because a relatively small number of customers are spread across a large area. Ergon Energy Queensland is the electricity retailer for most of regional Queensland's electricity.

In 2019–20, the community service obligation payments to Energy Queensland were \$498 million, a \$36 million increase from the prior year. This was due to an increase in the average retail tariffs, which are independently set by the Queensland Competition Authority. Without community service obligation payments, Ergon Energy Queensland would have recorded a loss of \$204 million in 2019–20. Average retail tariffs are expected to reduce next year.

Solar Bonus Scheme funding will cease

In 2019–20, Energy Queensland paid customers \$277 million for the power they contributed to the energy grid through their rooftop solar. This included eligible customers under the state government's Solar Bonus Scheme who receive 44 cents per kilowatt hour.

The state government has funded the scheme in the last three years, but has not extended the funding beyond 30 June 2020. From next financial year, electricity customers will pay for this in their bills as part of network charges.

The government provided electricity bill relief during COVID-19

As a result of the COVID-19 pandemic, the Queensland Government helped some households and small businesses to pay electricity costs. Through the Department of Communities, Disability Services and Seniors, it spent \$404 million to assist eligible households and \$86 million to assist eligible small businesses.

Future challenges for the energy sector

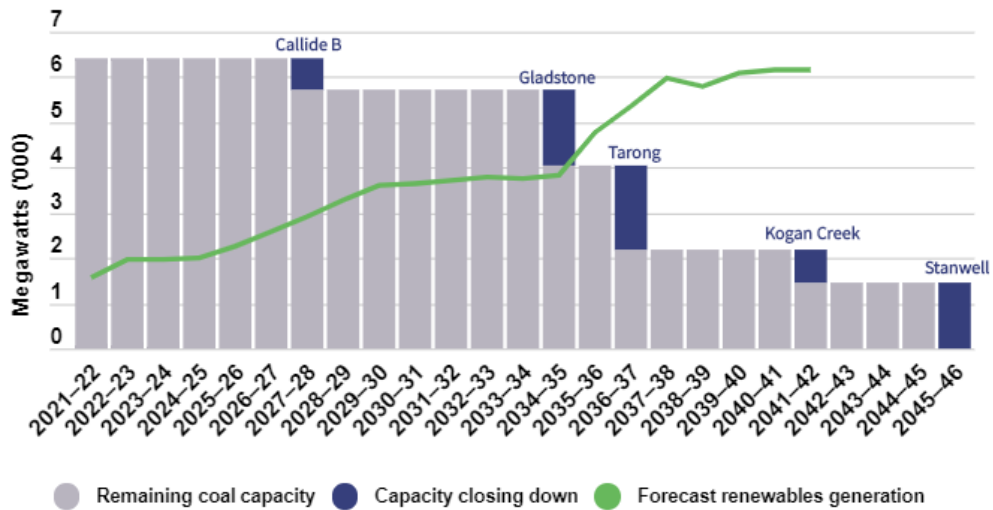
Renewable energy sources will replace coal as the main source of energy

Stanwell's and CS Energy's coal-fired power stations generated 68 per cent of the state's electricity, while CleanCo generated two per cent. 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. We also plan to issue a report to parliament on how the state government is managing the transition to renewable energy.

Figure 3F shows when coal power stations in Queensland are due to be retired and how generation of renewables is expected to replace them. This change will impact on the generators' operations and asset investment decisions.



Figure 3F
Forecast change in coal capacity and renewables generation



Note: The figure above does not include Callide C, as this information is yet to be submitted to AEMO. Forecast renewable capacity includes committed and anticipated projects.

Source: AEMO generating unit expected closure year—July 2020 and AEMO 2020 Integrated System Plan—Central scenario.

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

During the year, CleanCo announced it will purchase:

- 400 megawatts from the Macintyre Wind Farm, located in the Darling Downs region
- 320 megawatts of solar energy from Neoen’s Western Downs Green Power Hub.

In August 2020, Stanwell and CS Energy announced they had signed two new agreements:

- Stanwell will purchase 348 megawatts from the Clarke Creek Wind Farm, which will be constructed in the Isaac and Livingstone Shire areas.
- CS Energy will purchase 162 megawatts from the Columboola Solar Farm, which will be constructed in the Western Downs Regional Council area.

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.

Integrating renewables into the electricity networks

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.

These changes affect the stability of the network. The network entities need to accommodate these changes while maintaining a reliable electricity supply.



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). 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.



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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
- 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
Brisbane Queensland
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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

[Signature]
Graham Fraine
Acting Under Treasurer

7/1/2021

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Queensland 4001 Australia
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ABN 90 356 020 239

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	• CleanCo Queensland Limited	• <i>Government Owned Corporations Act 1993</i>	31 August 2020
	• CS Energy Limited	• <i>Corporations Act 2001</i>	
	• Energy Queensland Limited	• Corporations Regulations 2001	
	• Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)		
	• Stanwell Corporation Limited		
Controlled entities	• Ergon Energy Queensland Pty Ltd	• <i>Corporations Act 2001</i> • Corporations Regulation 2001	31 October 2020

Source: Compiled by 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. Audit opinions for entities preparing financial reports

Audits of financial statements

The following table details the types of audit opinions issued in accordance with Australian auditing standards for the 2020 financial year.

Figure C1
Our 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.

Regulatory information notices

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 2015–20 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).

Figure C2
Results of 2019–20 audits and reviews of Energex and Ergon annual regulatory notices

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.

Australian financial services licences

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.

Figure C3
Results of 2019–20 audit of Australian financial services licences

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.



D. 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 2019–20, as they were not required to produce financial statements.

Figure D1
Energy sector entities not preparing financial reports in 2019–20

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

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

Source: Compiled by Queensland Audit Office.



E. Financial results

Figure E1
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	107,847	157,444	(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 Queensland Audit Office.

Figure E2
Energy sector entities—for the year ended 30 June 2019

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	183,267	4,335	6,804	7,872	(1,068)	(457)	34	–
CS Energy	2,219,788	1,643,299	1,378,787	1,218,478	160,309	233,861	66,267	557,353
Energy Queensland	25,783,000	22,156,000	4,991,000	4,334,000	657,000	939,000	764,000	16,724,000
Powerlink	8,350,985	6,479,024	1,005,837	891,798	114,039	163,068	240,034	5,265,221
Stanwell	4,157,725	2,865,437	4,046,896	3,310,887	736,009	863,916	70,356	821,603
Total	40,694,765	33,148,095	11,429,324	9,755,163	1,667,357	2,199,388	1,140,691	23,368,177
Ergon Energy Queensland	1,079,201	970,371	2,180,266	1,959,810	220,456	314,737	685	–

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

Source: Compiled by Queensland Audit Office.

F. Glossary

Term	Definition
Accountability	The responsibility of public sector entities to achieve their objectives of delivering reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reports to interested parties.
<i>Auditor-General Act 2009</i>	An Act of the State of Queensland that establishes the responsibilities of the Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the Auditor-General with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Community service obligations	Government payments to commercial entities to provide services that are not sustainable otherwise.
Competitive neutrality	This is the policy that a public sector business should not have a competitive advantage (or disadvantage) over the private sector solely due to their government ownership.
Controlled entity	An entity controlled by another entity. The controlling entity can dominate decision-making, directly or indirectly, in relation to financial and operating policies so as to enable the other entity to operate with it in achieving the objectives of the controlling entity.
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.
Megawatt hours	A megawatt hour (MWh) is equal to 1,000 kilowatts of energy used continuously for one hour.
Significant deficiency	A deficiency, or combination of deficiencies, in an internal control that requires immediate remedial action.
Unmodified audit opinion	An unmodified opinion is expressed when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.





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