Queensland Audit Office
Better public services

Energy: 2017–18 results of financial audits

(Report 9: 2018–19).
Tabled 22 November 2018.

Slide 1: Welcome

This presentation summarises our report to parliament on the results of our 2017–18 financial audits of the entities in the energy sector.

Please note that this is a summary. The full report can be read on our website.

Slide 2: Audit results

This year, we provided unmodified audit opinions on all energy entities' financial statements within the statutory deadline. Readers can rely on the audited financial statements of these entities.

Slide 3: Audit results

We found that entities generally had effective year-end close processes but there is scope to improve early resolution of complex accounting issues. The ratings for timeliness and quality of financial statements across the sector are lower this year.

We also issued 11 unmodified opinions and conclusions on regulatory information notices prepared by Ergon and Energex for the Australian Energy Regulator (AER) within deadlines.

Slide 4: Financial performance

Profits for the energy sector declined by nine per cent compared to the previous year. The largest contributors were transmission and distribution—a reduction of 21 per cent from the previous year. This is due in part to AER reducing the allowable income that these businesses could earn.

However, profits from generation grew by 13 per cent. Realised prices from sales of electricity are higher in 2017–18 and their retail businesses have expanded. Profits from Ergon Energy retail also grew by $143 million compared to the previous year. This is primarily due to the QCA setting higher retail tariff rates. Ergon Energy, however, remains reliant on the government continuing to subsidise the cost of distribution charges to consumers.

As a consequence of the decrease in profits, the total returns to the state government from the energy entities dropped by $40 million. The Queensland Government, however, increased the amount it returned to customers by more than $340 million in 2017–18.

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Slide 5: Internal controls

We assessed that the control environment for each entity was effective.

We did not identify any significant deficiencies in the sector relating to internal controls, but we identified eight lower risk deficiencies.

The energy entities have accepted our recommendations and are working on addressing the deficiencies.

Slide 6: Future challenges and emerging risks

The energy sector is faced with challenges relating to affordability, reliability, sustainability and national policy uncertainty.

In Queensland, the state government enacted measures from its *Powering Queensland Plan* to reduce price volatility in the electricity market and to meet the state target for 50 per cent renewable energy by 2030. These include:

- changing Stanwell's bidding
- recommissioning Swanbank E
- creating a new generator
- investing in renewable energy projects.

Slide 7: Future challenges and emerging risks

Financial returns from the state's generation businesses have been increasing since 2015–16. However, a future transition to renewable energy sources may impact the demand for electricity from coal-fired power plants. This may affect their returns to the state government.

Income from transmission and distribution is regulated by the AER and is declining. This affects their profitability and the returns to the state government. Dividends and tax equivalents from transmission and distribution dropped by 18 per cent from the previous year.

Slide 8: For more information

For more information on the results, financial performance, and future challenges and emerging risks highlighted in this summary presentation, please see the full report on our website.

Thank you.