TRANSPORT AND RESOURCES COMMITTEE

Members present:
Mr SR King MP—Chair
Mr CE Boyce MP
Mr JR Martin MP
Mr LL Millar MP
Mr LA Walker MP
Mr TJ Watts MP

Staff present:
Ms D Jeffrey—Committee Secretary
Mr Z Dadic—Assistant Committee Secretary

PUBLIC BRIEFING—CONSIDERATION OF AUDITOR-GENERAL REPORTS 5, 7 AND 10 OF 2021-22 (QUEENSLAND AUDIT OFFICE)

TRANSCRIPT OF PROCEEDINGS

MONDAY, 14 MARCH 2022

Brisbane

MONDAY, 14 MARCH 2022

The committee met at 8.45 am.

CHAIR: Good morning. I declare this public briefing for the committee's consideration of Auditor-General's reports open. My name is Shane King, the member for Kurwongbah and chair of the committee. I would like to respectfully acknowledge the traditional custodians of the land on which we meet today and pay our respects to elders past and present. We are very fortunate to live in a country with two of the oldest continuing cultures in Aboriginal and Torres Strait Islander people whose lands, winds and waters we all share. With me here today are: Lachlan Miller MP, the member for Gregory and deputy chair; Colin Boyce MP, the member for Callide; Les Walker MP, the member for Mundingburra; James Martin MP, the member for Stretton; and Trevor Watts MP, the member for Toowoomba North.

This briefing is a proceeding of the Queensland parliament and is subject to the parliament's standing rules and orders. Only the committee and invited witnesses may participate in the proceedings. Witnesses are not required to give evidence under oath or affirmation, but I remind witnesses that intentionally misleading the committee is a serious offence. You have previously been provided with a copy of instructions to witnesses, so we will take those as read. I also remind members of the public that they may be excluded from the briefing at the discretion of the committee.

These proceedings are being recorded and broadcast live on the parliament's website. Media may be present and are subject to the committee's media rules and the chair's direction at all times. You may be filmed or photographed during the proceedings and images may also appear on the parliament's website or social media pages. I ask everyone present to please turn mobiles phones off or to silent mode.

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

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

WORRALL, Mr Brendan, Auditor-General, Queensland Audit Office

CHAIR: I welcome the Auditor-General and representatives from the Queensland Audit Office who have been invited to brief the committee on various Auditor-General's reports that have been referred to the committee. I invite you to make a short opening statement, after which committee members will have some questions for you.

Mr Worrall: Thanks for the opportunity to brief on the three reports: *Managing Queensland's transition to renewable energy*, *Energy 2021* and *Transport 2021*. Given there are three reports to be covered, I will provide a high-level overview and then we will take some questions. Firstly, I will talk about the energy and transport reports.

Overall, the financial reports of the transport and energy entities are reliable and comply with relevant laws and standards. We issued unmodified opinions for all of those entities. We assessed whether the internal controls entities use to prepare financial statements are effective. While we were able to rely on the entities' internal controls, we continued to identify weaknesses in the entities' information systems relating to user access, password security and policies.

All entities prepared their financial statements by the legislative deadline of 31 August, except for one transport entity. That was Gladstone Ports, whose certification was delayed by management due to our request for additional assessments of the remuneration disclosures detailing salary and other benefits to ex key management personnel. The updated statements were certified by QAO on 14 September. In recent years, Gladstone Ports has had frequent changes to key management personnel and executive positions. These changes have negatively impacted on the governance structure, reporting and the board's ability to enforce the desired decision-making culture. These changes have also had a high financial impact.

We raised significant deficiencies in internal controls for Gladstone Ports on the process for payments to ex key management personnel and records maintained. We also made a series of recommendations to Gladstone Ports to address the deficiencies in governance and oversights which were not reproduced in the report. There were further details in management letters to them that did not warrant being mentioned in a report to parliament. Although some of the corrective actions have addressed parts of the prior year recommendations to the transport sector, further actions need to be taken to improve procurement, payroll processes and the security of information systems.

In the transport sector—our report includes the department of transport, Queensland Rail, the Cross River Rail Delivery Authority and the four ports—the operating results decreased by $52 million to $472 million. This was mostly driven by the operating result before tax of the Department of Transport and Main Roads decreasing by $190 million to $45 million, which was in line with the original budget for that department. However, shareholder returns were $105 million higher than previous years due to Queensland Rail's increased profits. The increase was primarily driven by higher transport services revenue from its contractual arrangements with the department and lower finance costs and expenditure on consumables than what was planned.

Our energy report included the three generators: Powerlink, Energy Queensland and Ergon Energy Queensland. These entities increased their profits by $482 million. This increase was largely due to an increase in profit from the generators due to their power stations not decreasing in value as much as they had in the previous year.

On 25 May 2021 there was an incident at CS Energy Callide C power station that forced the unit offline. This resulted in power blackouts across Queensland. Power was quickly restored and CleanCo and Stanwell assisted in meeting demand, while Powerlink and Energy Queensland reconnected affected customers. CS Energy is seeking recovery from its insurer for material damage and business interruption.

We made one recommendation to energy entities, and that was to address the security of their information systems. As the energy sector diversifies to renewables, the energy sources need to ensure they maintain profitability and deliver reliable electricity supply for all Queenslanders.

This leads me to the third report, which is on renewable energy. Rooftop solar is the greatest renewable energy generation source in the state, but wind and large-scale solar generation are rapidly increasing. In the next four years, a number of renewable projects are planned to start operating. The Department of Energy and Public Works estimates that this will see Queensland reach around 35 per cent renewables in 2025. Queensland's progress will then depend on the progression of future projects currently in an early planning stage.

Queensland's early renewable energy initiatives encourage the private sector to deliver the transition to renewable energy. The government's new $2 billion Queensland Renewable Energy and Hydrogen Jobs Fund will increase its direct role in the transition. Under this fund, government owned energy corporations may significantly increase their development and ownership of renewable energy generation. They may also access the fund to support the development of private sector renewable energy projects.

Beyond its 50 per cent target, the department has not yet set out its ambitions for the energy system towards 2030. The government has announced the development of a new 10-year energy plan. This would help inform investors, communicate its overall vision for the transition to renewable energy, and provide information on its desired end state.

We made five recommendations in this report including that the department: communicates its overall vision and objectives for the transition; conducts an interim review by 2025 to formally assess its progress and to consider further actions needed to achieve the 2030 target; and improve its public reporting on the transition to that renewable target. That concludes our overview of the three reports. The committee might benefit in hearing from the entities themselves in terms of where they are with the recommendations. We are happy to take questions.

CHAIR: I want to go a bit further into the recommendations about the public reporting in the renewable space. Could you elaborate on that?

Mr Worrall: In the report we make a recommendation that there needs to be more public reporting. We also make a recommendation that there needs to be more transparency about how the renewables target is calculated. At the moment, the calculation includes some generation that is exported from the state. I think that is in the target, and there is also some other offline generation that is not included in the target. It needs to better define it and then report that on an ongoing basis.

Mr WATTS: Can I explore that a bit more. I am interested in understanding exactly what the target means. Does that include what we export out of the state, and what extent does that impact on it and these other generational sources that might exist in various communities? Could you expand on the impacts of that a bit? How should we be reporting around this target and how often?

Mr Worrall: As I said in terms of the target, the target at the moment includes export electricity to outside of Queensland and there are some generating units that are not picked up by the target. We did a recalculation and we think the actual production at the time of the report was not 20 per cent; it was more like 19 per cent because of those factors. We are saying that the definition needs to be redefined to take care of those anomalies. In terms of the regular reporting, I do not think we stipulated a time frame about that.

Ms Vagg: I think our focus is really on clarity and transparency of the calculation by the department. They have made an interpretation of what they think it should be, and our recommendation is that it is made clearer about how it is actually calculated and then that is included in the service delivery statements in terms of the calculation of what actually happens.

Mr WATTS: Are you suggesting that should be in the service delivery statements in each budget?

Ms Vagg: The target and the calculation is in there. There should be clarity about how it is calculated.

Mr MARTIN: I have a question in relation to security. One of the recommendations in the report was that energy entities address the security of their information systems. Could you elaborate on this issue and suggest how entities could address that so it does not reoccur into the future?

Mr Worrall: I can talk about that and then Rachel or Patrick can jump in. This is really a common finding across all sectors around security of information systems. There are things that entities can do to improve their security, like third factor identification and other software that will detect intrusions into the systems. There are a range of things entities can do to have better defences. As I said, this is a common theme across all entities. In other reports I have probably said that. This is actually the No. 1 risk for government—their information systems and the vulnerability of information systems. It is probably more like a journey than an end game because the nature of threats change over time. They become more sophisticated. There are always new products. It is an area that requires ongoing investment and diligence and also an oversight by executive governance. It is not just a technical response; it is also a governance response.

Mr WATTS: You have talked about information security. What about the control of the network and its distribution and the various levers that need to get pulled as power is drawn in one area and supplied to another? How are the security systems around that?

Mr Worrall: They were not really subject to our audit, but I would say that those statements I just made said about security systems generally would apply. It is not just corporate systems; it is actually operational systems that may even be more vulnerable given the impact they can have. Any of their systems—whether they are corporate or operational—need the best security that can be mustered within the resource space that these entities have. So it is definitely including operational systems

Mr MILLAR: I want to go to the transport part of the Auditor-General's report in regard to Gladstone Ports, which has suffered from issues relating to governance and oversight. Can you elaborate on that? Are you satisfied that the issues have been addressed?

Mr Worrall: As we said in the report, I think one of the contributing factors to the issues was the churn through of key management personnel. Over an 18-month period, seven or eight key management personnel have churned through the port. I think that has had a destabilising effect and that has played out in some of the issues we have raised in the report around internal control, governance, the board trying to set a direction and that direction being executed.

There is still some instability. At the moment they are going through a selection process for a new chief executive. That is one of the roles that has been unstable for a number of years. They had a new chair appointed in October last year. We still need to see the results of some of these things. I think it is too early to say whether they are out of the woods, so to speak.

Mr MILLAR: What are some of the issues that still need to be addressed? Have you been able to identify that?

Mr Worrall: They need to appoint a chief executive and try to stabilise the key management positions. I think that is probably something that would be a key priority because there has been no stability of key management from December 2018 to August 2021. There are those seven or eight positions that have churned. That would have a huge impact on the operations of the organisation; it would impact the culture. The people working under that environment would find that quite difficult when there is a churn of people at the top.

Mr MILLAR: Do you believe this will be solved with the new chief executive to be recruited?

Mr Worrall: Whoever that new chief executive will be will definitely have their work cut out for them because there will probably be other positions they will need to fill in those ranks. I think they will need time to work through all of that, to tell you the truth. I think that would be the case for any incoming chief executive.

CHAIR: Stability in leadership. Thank you.

Mr MARTIN: I have a question in relation to challenges facing the energy sector. Your report mentioned transition to renewable energy. Could you elaborate on what other challenges the sector is facing and if the Audit Office considers that the sector is proactively managing those challenges?

Mr Worrall: I sort of alluded to it in my opening statement. One of the challenges the sector has faced is that there has been a general decrease in wholesale electricity prices. How has that played out for the coal-based generators? Particularly in 2020, that had an adverse impact on their asset valuations because as the prices are decreasing the assets are worth less because they cannot generate as much revenue as possible. That somewhat stabilised in 2021. Electricity prices are an ongoing challenge and, of course, they are operating in a regulated market.

Other challenges would be around transition, and this is probably in both the renewables report and the energy report. The transmission creates challenges for the location of renewable energies because typically electricity depletes the greater the distances. For the transmission, they still need to be able to generate a return on those assets to continue to reinvest in those assets.

Mr BOYCE: Are there any guarantees that a 50 per cent renewable energy target would achieve good reliability and frequency given that some of the coal-fired power fleet would be retired at some point in the future?

Mr Worrall: That is a good question. It was not a question we sought to answer in our audit. We sought to answer how the government was managing its transition to that target; that is what we focused on. You are quite right: there are risks in the transition. We tried to at least bring out some of those risks. The risk is all around timing. In terms of the comment I made about energy prices, I think we have seen that has probably accelerated the demise of one or two coal-fired power stations in other jurisdictions. With lower energy prices, they will be less profitable. That is the risk in any jurisdiction transitioning to renewables, which I think we have pointed out in the report. We did not seek to answer the question about guarantees of supply because we have highlighted risks to the guarantees of supply, which is about balancing bringing on new forms of electricity and the retirement of existing generating capacity.

Mr BOYCE: I turn to transport. Some years ago a report was issued identifying a projected $9 billion shortfall to road maintenance throughout the road network in Queensland. Would you care to comment on where we are at in terms of that? Is it getting bigger or smaller?

Mr Worrall: Unless one of my colleagues has the answer, I would have to take that on notice. It is not information I have at the moment. It is a number that the department would manage on an ongoing basis.

CHAIR: Is it more a question for the department?

Mr Worrall: Yes, the department would have that information.

CHAIR: We are seeing them next sitting week.

Mr WALKER: The audit report noted that the returns to shareholders and customers have declined. Could the Queensland Audit Office please comment on the reasons for that and whether it is likely to continue into the future?

Mr Worrall: Was that the energy report or the transport report?

Mr WALKER: Yes, the energy report.

Mr Worrall: I can give a bit of a high-level view. The returns to the shareholders are made up of dividends paid by the entities but also tax equivalents. Some of these entities are taxed as if they are true income taxpayers under the Income Tax Assessment Act. Those tax equivalents flow to the government. Just looking at dividends, in 2021 dividends were $658 million. In the year before that they were $910 million, so there was a decline of $260 million in dividends. In 2021 tax equivalents were $202 million and in the year before that they were $92 million, so they actually went up $110 million. There was a net decline in returns by about $150 million between those two periods.

In terms of the sustainability, that probably comes back to some of those issues we have been touching on in terms of what happens to asset values for those electricity assets. If they decline, that is going to have a negative impact on their profitability and potentially impact dividends as well.

Ms Vagg: I might add to that that both Powerlink and Energy Queensland are regulated, so their return is set by the Australian Energy Regulator. At the moment there are not any forecast increases in revenue for them, so you would not expect, without significant cost savings, there would be an increase in profit for Energy Queensland and Powerlink.

Mr Worrall: We also noted in the report that, generally speaking, the entities in the electricity industry are seeking to diversify their revenue base, particularly the ones that have this regulated revenue. They realise they are on a price pathway controlled by the regulator, so they are seeking to diversify the revenue base. If that happens, that might increase their profitability beyond the regulated revenue that they can earn.

CHAIR: I return to the transport report. You identified a few challenges faced by the transport sector due to COVID-19 and the impacts that has had: fluctuating returns, obviously fewer passenger trips due to COVID-19, negotiation of a new rail transport service contract and the implementation of smart ticketing. Could you elaborate on those effects?

Mr Worrall: The report has some statistics around the ticketing. You can see some of those numbers are down quite substantially across all forms of transport, whether it is buses, trains or ferries—I think they are all down by around a quarter of a per cent, from memory, in terms of revenue patronage. Obviously that has flowed through those entities. In relation to the other things, I will get Rachel to talk about those.

Ms Vagg: It was certainly a challenging year for them. We did see some costs increase in the sector as well relating to delivery of services, particularly within rail. The main challenge coming up when you think about expenditure is the delivery of Cross River Rail. Going forward, that will be the focus of the sector in terms of all of the entities; so department of transport, Queensland Rail and Cross River Rail Delivery Authority will be challenged to deliver the project.

Mr WATTS: I return to energy. I am curious about the solar energy that is being generated. You said in the report that aligning demand and generation is an issue. I am interested in that. Further, did you at any stage look at what happens to solar farms at the end of life in terms of the asset not just being replaced but actually being reprocessed so that we do not end up with toxic waste?

Mr Worrall: In relation to the second part of the question, no, we did not look at end-of-life issues around solar farms. In relation to the first part of the question, one of the issues around solar energy in terms of how it is played out, the demand—and I think there is a chart in one of those reports—for electricity from the generators is actually at its lowest in the middle of the day. There is a chart where you can see the time from 11 am to 2 pm or 3 pm has the lowest demand for electricity from the grid because people are probably drawing from their rooftops the most during that period. That has issues as well.

We have not really seen it play out in Queensland but it played out in South Australia or New South Wales—one of those southern states. The demand for electricity from the generators got so low that the regulator had to step in and turn off some of the solar feeds. There was an issue with power stations in that you cannot turn them off and on; they probably have a minimum threshold at which they need to operate. The same probably goes for the transmission as well, but do not quote me on that. We have not seen that here, but that would be a risk. If the demand got so low from the generation, the regulator might have to step in and turn off solar. I thought that happened in the second half of the last calendar year in one of those southern states.

CHAIR: That is where pump storage and batteries come into it.

Mr WATTS: I am all for pump storage. I am trying to understand the different generation sources. Was any analysis done on the profitability? For example, a coal-fired power station cannot just crank up and crank down based on demand in the public space and/or supply from other operators and how that might impact the stability of the grid. Was there any analysis done on that?

Mr Worrall: We have not gone there, but you raise issues that have played out in other jurisdictions. Some of the challenges with renewable energy are: if there is no sun there is not much electricity; if there is no wind there is not much electricity. They are some of the challenges for all jurisdictions about getting the mix right and also transitioning to that. I think we have tried to point those risks out in the report. They will need to be actively managed.

Mr WATTS: Do you think we should be reporting on what happens at end of life and reprocessing? Should we be reporting on this stability issue that may or may not grow as we change our allocation of resources?

Mr Worrall: I think the end-of-life issue is definitely an issue at the entity level. They may have to make good the land, for example, depending on what conditions they are operating under. I think that is definitely an issue for those entities. I am assuming that will come at a cost. It is a bit like rehabilitating a quarry at end of life: you need to provide for that. I think that will potentially be an issue for those entities as they move towards that life cycle. In terms of the second part of the question, we did not look at that. We have probably indicated that as a risk in the report.

Ms Vagg: I might add that one of our recommendations was about formalising an energy strategy and the department is developing a 10-year energy plan. They are part of the critical elements that should be in the plan, so a mix of energy, location of energy and the effect on the network. That is why that longer term strategy is very important to managing those risks.

In terms of any costs associated with the finalisation of assets, we do look at those as part of our financial audits should the assets be owned by the state. If there is a legal obligation to rehabilitate the assets in some way or dispose of the assets according to any conditions, it is actually provided for in the financial reports of the entities. Any solar farms owned by the state will be assessed as part of that financial reporting process.

CHAIR: Like a mine, the end of life has to be considered.

Ms Vagg: That is right.

Mr MILLAR: I want to thank you for what you do. I think your office plays a very important role in Queensland.

CHAIR: The whole committee echoes that. That concludes this briefing. Once again, thank you all for your participation today. A transcript of these proceedings will be available on the committee's webpage in due course. I declare this public briefing closed.

The committee adjourned at 9.16 am.