STATE DEVELOPMENT, NATURAL RESOURCES AND AGRICULTURAL INDUSTRY DEVELOPMENT COMMITTEE

Members present:

Mr CG Whiting MP (Chair)
Mr DJ Batt MP
Mr JE Madden MP
Mr BA Mickelberg MP
Ms JC Pugh MP
Mr PT Weir MP

Staff present:

Dr J Dewar (Committee Secretary)
Mr M Binns (Inquiry Secretary)
Mrs N Mitchenson (Assistant Committee Secretary)

PUBLIC BRIEFING—AUDITOR-GENERAL'S REPORTS 5 AND 9: THE RESULTS OF THE FINANCIAL AUDITS OF THE QUEENSLAND GOVERNMENT'S WATER AND ENERGY ENTITIES

TRANSCRIPT OF PROCEEDINGS

MONDAY, 14 MAY 2018

Brisbane

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The committee met at 11.37 am.

CHAIR: Good morning. I declare open the public briefing on the Auditor-General's reports 5 and 9, the results of the financial audits of the Queensland government's water and energy entities for the 2016-17 financial year. The Committee of the Legislative Assembly referred both reports to the State Development, Natural Resources and Agricultural Industry Development Committee for consideration. Thank you for your attendance here today. I am Chris Whiting, the member for Bancroft and chair of the committee. Other committee members here with me today are: Mr Pat Weir, deputy chair and member for Condamine; Mr David Batt, the member for Bundaberg; Mr Jim Madden, the member for Ipswich West; Mr Brent Mickelberg, the member for Buderim; and Ms Jessica Pugh, the member for Mount Ommaney.

The committee's proceedings are proceedings of the Queensland parliament and are subject to the standing rules and orders of the parliament. Witnesses should be guided by schedules 3 and 8 of the standing orders, noting that their responsibility is to provide factual and technical background to government legislation and administration. The proceedings are being recorded by Hansard and broadcast live on the parliament's website. Before we commence could you please switch off your mobile devices or put them on silent. I now welcome officers from the Queensland Audit Office who have been invited here to brief the committee on reports 5 and 9 of the Auditor-General, which set out the results of the financial audits of the Queensland government's water and energy entities respectively.

BIRD, Ms Daniele, Deputy Auditor-General, Queensland Audit Office

VAGG, Ms Rachel, Sector Director, Queensland Audit Office

Ms Bird: My name is Daniele Bird. I am the Deputy Auditor-General, but I also head up the Performance Audit Unit within the Queensland Audit Office.

Ms Vagg: My name is Rachel Vagg. I am a sector director within the Queensland Audit Office.

CHAIR: Would you now like to make an opening statement?

Ms Bird: We welcome the opportunity to brief the committee this morning. As you stated, report No. 9 is the wrap-up of our financial audits for 2016-17 for the energy entities; report. No 5 is our financial audit results for 2016-17 in the water sector entities. These reports discharge the Auditor-General's responsibility under the act to report on the financial results of those audits. Each year the Queensland Audit Office undertakes financial statement audits for each of the public sector entities. Last year that was in the order of about 450 financial statement audits. Our audits assure that those entities and the users of those financial statements can rely on the information that is in those financial statements. In conducting those financial audits we review the systems and processes used to capture and report on financial information, and we consider whether an entity's internal controls are effective at reducing error and fraud and ensuring that the financial information is therefore reliable.

Our audit opinion confirms that the financial statements are free from material misstatements and they comply with the relevant legislation. Where possible we aim to issue unmodified audit opinions. We work quite closely with each of the public sector entities to ensure that they do submit high-quality financial statements. Whether or not we do modify our opinion depends on each entity's compliance with its reporting obligations. Rachel is going to share with you a brief overview of the analysis that we did on the financial audits within each of those sectors, and then at the end we are open to questions.

Ms Vagg: Report No. 9 for energy on the 2016-17 results of financial audits summarises the results of our financial audits of the state government's energy entities. These include the four state government owned energy companies—Stanwell Corporation, CS Energy, Powerlink and Energy Queensland Limited—and 31 subsidiaries of those entities, including Ergon Energy Queensland. We issued unmodified audit opinions for the financial statements of each of the entities, with all audits completed within the 31 August legislative deadline. We also considered the regulatory information notices of Energex and Ergon Energy provided to the Australian Energy Regulator. There were no significant issues impacting the audit opinions issued on the financial reports of these entities. Each of the entities was able to demonstrate effective financial statements processes, including preparing for year-end activities. The timeliness and quality of the financial statements were assessed as effective.

This was the first year that we included key audit matters in our independent audit reports for all energy entities. Key audit matters are those areas which, in our professional judgement, pose a higher risk of material misstatement to the financial statements. These matters mostly reflect those areas requiring significant judgement and estimation, with five of the eight matters reported covering valuation of property, plant and equipment and revenue recognition.

In terms of major changes to this sector and restructures, Energy Queensland Limited was established 30 June 2016. It took control of the Energex and Ergon Energy groups to merge electricity distribution across the state. This is the first year of restructured results for that entity. The purpose of this structural change was to lower energy prices in the long term by removing the duplication of distribution activities. The reorganisation of systems, processes and people is a challenge affecting Energy Queensland, and the plans for transition span several years. The overall sector performance and position is analysed in this report, which adds up the results from each of the individual companies.

Our key analysis showed the property for the energy sector was $1.9 billion, which is an increase of 45 per cent from the previous year. This was mostly because of increased profits from energy generation—around $511 million—because of increased demand for energy and record highs in market energy prices. Average market prices for energy in 2016-17 were the highest on record. During the period the state received $1.63 billion in dividends from the sector. Both Stanwell and Powerlink, however, retained a portion of dividends during the period to fund future capital expenditure. Included in the Powerlink dividend for the year is a $160 million special dividend. This was paid to increase the gearing of the entity in line with government policy decisions.

The energy sector recorded expenses of $8.2 billion last year, an increase of 15 per cent from the previous year. This was largely due to the increased cost of energy purchased from the National Electricity Market by Ergon Energy Queensland for supply to retail customers. Total assets increased by $2.8 billion to $40.4 billion, which is an increase of seven per cent from the previous year. This was primarily due to an increase of $724 million to property, plant and equipment values resulting from capital expenditure and changes to valuation assumptions, and $711 million received by Energy Queensland from the state to support solar tariff payments for the next three years. The energy sector holds $23.2 billion in borrowings, which is unchanged from the previous year, and $7 billion in equity. The debt-to-equity ratio for the sector is consistent with the previous year and continues to be within industry benchmarks.

As part of the audit process we assess internal controls for each of the entities. We look at the design of the controls and test whether they are operating effectively throughout the year. We concluded that the control environment was suitably designed and implemented for all energy entities. In this sector there were no significant or high-risk issues identified. We did identify 16 control deficiencies which are low to moderate risk. These are matters which should be resolved to ensure a good-quality control environment. These deficiencies mostly related to general information technology controls relating to user access, system capability and system changes. These issues were isolated and are being addressed by management of the entities.

Report No. 5 on water was the 2016-17 results of financial audits for those entities. It summarises the results of the six main state and local government owned water entities and two controlled entities. These include Seqwater, Unitywater, Queensland Urban Utilities, SunWater, Mount Isa Water Board, and Gladstone Area Water Board. Smaller water boards and local governments provide water services in designated areas to their ratepayers, and they are outside the scope of this audit.

We issued unmodified audit opinions on all financial statements this year within the statutory deadline of 31 August. Each of the entities was able to demonstrate effective financial statement processes, including preparing for year-end activities, and the timeliness and quality of the financial statements were assessed as effective. Entities with issues last year put appropriate processes in place and made information available by the agreed time frames this year. Seqwater met the statutory reporting deadline for the first time in three years after the quality of asset valuation processes improved.

This was the first year we included key audit matters in our independent audit reports for Seqwater and SunWater. Key audit matters are those areas that, in our professional judgement, pose a higher risk of material misstatement to the financial statements. These matters mostly reflect those areas requiring significant judgement and estimation. For both Seqwater and SunWater we included key audit matters on the valuation of property, plant and equipment and the estimation of useful lives for depreciation expense.

In terms of major changes and restructures, the state government legislated the Water (Local Management Arrangements) Amendment Act 2017 to facilitate the future implementation of local management arrangements for SunWater's eight channel irrigation schemes. The arrangements will transfer distribution schemes such as channels, pipes and drains out of public ownership to irrigator ownership. It will not consider bulk water supply assets such as major dams.

The overall sector performance and position is analysed in this report, which adds up the results from each of the individual companies and statutory bodies. Our key analysis showed that profits for the water sector were $368 million, which is an increase of 71 per cent from the previous year. This has been driven by population growth, consumer demand for water and pricing increases across the sector. Seqwater, however, continues to make an operating loss which largely reflects the historical underrecovery of the cost of water and the past acquisition of highly geared businesses, including climate resilient manufactured water assets.

Returns to the state government have reduced in the 2016-17 year to $8 million from $168 million the previous year. The state did not request a dividend from SunWater, and its profit of $36 million was retained by the entity. The returns made by the distributor-retailers Queensland Urban Utilities and Unitywater to their participating local governments amounted to $202 million for 2016-17, up $31.5 million from the previous year. Due to operating losses, Seqwater continues to make no dividend payments to the state.

The water sector reported $3.3 billion in revenue, which is an increase of six per cent from the previous year. The majority of this growth has been from increased developer contributions, which is an increase of 18 per cent year on year. This relates to cash and assets received by distributor-retailers from developers. Price increases for all entities have also driven increases in revenue. The water sector recorded expenses of $2.8 billion, which is a small decrease from the previous year. Each of the entities has worked towards maintaining and containing expenses through implementing cost-reduction strategies. Finance costs are the most significant expense for the water sector and have continued to decrease, reducing by $15 million last year. This is in line with interest rates and the commencement of interest charge repayments by Seqwater. The water entities' assets remain steady, as do their borrowings. Of the borrowings amount of $13.5 billion Seqwater holds $9.4 billion, which continues to be guaranteed annually by the state government. Seqwater has not materially increased its debt this year and commenced paying interest costs for all of its debt rather than capitalising these costs, which in the past has increased its debt.

As part of the audit process we assessed internal controls for each entity. We looked at the design of the controls and tested whether they were operating effectively throughout the year. This year we identified two significant deficiencies, high-risk matters, in control activities at SunWater relating to individuals' accessibilities in the finance system and the segregation of duties within accounts payable. We assessed the control environment of all of the remaining entities as effective, and we were able to rely on the internal control systems used to produce financial statements. In 2016-17 we identified 13 low- to moderate-risk control deficiencies across the sector. These are not high risks, but they are matters which should be resolved to ensure a good-quality control environment. These deficiencies mostly relate to general information technology controls relating to user access, system capability and system changes. These issues were isolated and are being addressed by management.

We are now happy to answer any questions the committee may have on either of the reports.

CHAIR: Bearing in mind that we are looking at internal processes, which is your main role, in terms of energy you identified some control deficiencies and you touched on a few of the isolated ones. Can you outline in a bit more detail those control deficiencies and whether the response from those entities has been enough to counter any problems or concerns?

Ms Vagg: All of the control deficiencies that were identified in the energy sector are moderate- and low-risk categories, which means we do not require an immediate response from management to act on those issues. In terms of the style of issues, most of them do relate to information technology controls—things like user access to systems and the way entities manage change to their information technology. Fifteen of the 16 issues raised in the sector relate to those types of activities. It could be something like policies and procedures not being up to date and reflecting what is happening in the organisation. It could be that there are some timing issues in terms of access controls in the entity. We also had one issue which relates to the overall control environment, and that is an issue relating to setting the tone of the control activities in an entity.

CHAIR: Have the responses from the entities been to your satisfaction?

Ms Vagg: That is right.

Mr WEIR: My question relates to your finding that the average market prices in 2016-17 were the highest on record. Did you say there was a 45 per cent increase?

Ms Vagg: Yes.

Mr WEIR: What were the reasons for that? Why was there such a spike?

Ms Vagg: There are a few reasons, and government has discussed this in its policy statements as well. It is a supply-and-demand market, so when power stations are not available to generate electricity into the market it can affect price. It has also stated that uncertain carbon policy will affect price. The particularly hot summer through 2016-17 and the increased demand as a result have resulted in increased prices.

Mr WEIR: You referred to uncertainty over carbon policy. How does that have a direct impact today?

Ms Vagg: There is uncertainty around the mix of energy in future electricity markets and future prices, so therefore the contracting position of those organisations. Generally uncertainty will bring higher prices. Again, government policy discusses this in more detail than our report does.

Mr MADDEN: This question might be a bit too far in advance. The current government has made a commitment to 50 per cent renewables by 2030. How will that affect the energy sector?

CHAIR: In terms of your role.

Ms Bird: In terms of the current report we have referred to the Powering Queensland Plan, which obviously the government shared with us during this particular financial audit. That is where it refers to the commitment of around 50 per cent renewables. We do mention that, but obviously what transpires in the future, as you rightfully said yourself, we will be able to audit once we come to that in future years. Obviously, at this point we can refer to the fact that the government has put that plan together and what it has stated as its commitment. We state in the report that we expect it to have an impact, but obviously we cannot—

Mr MADDEN: That is why I prefaced my question that it may not be the role of the audit to predict the future. You review a particular period of time.

Ms Bird: Yes. Unfortunately, the nature of an audit is based on historical information, so that is right.

Ms Vagg: From an accounting perspective we do look at certain things when it comes to something like the Renewable Energy Target. We do look at the value of existing power station portfolios owned by government and assess whether their current value is able to be maintained. Together with management we do assess that annually to say if the other asset is still being utilised to the value which is reported in the financial statements. In this set of statements there were no concerns in terms of whether the assets were impaired or their valuation was affected from a downward perspective by the policy.

Mr BATT: In your report you mentioned future challenges and emerging risks for the sector. Are there challenges and risks going forward that you can share with us?

Ms Vagg: Following on from the previous question, the value assigned to the coal-fired generation fleet will be something we continue to look at annually, as do management. We have historically seen the effect of government policy on the value of those particular power stations. If they are not going to be used to capacity in the future, it will affect their value. As covered by this report, to date we have not seen any effect on the value of those assets, so no decline in value. Nor have we seen any change to the length of life of those assets, so they are still expected to be used for the entire available life of the assets. That is something we have highlighted we will continue to look at annually for those particular generation assets.

We have also looked at the Australian Energy Regulator's pricing regimes for both Energy Queensland—so its distributors Ergon Energy and Energex—and Powerlink and the available returns for those particular entities provided by the regulator. When I say that we look at it, we assess it to say whether there are sufficient returns provided by the regulator to support the reported values in their financial statements and also, again, the length of life and expected length of use of those particular assets and resulting depreciation charges. They are probably the two key areas that we have highlighted for future issues in the report.

Ms PUGH: Following on from the question of the member for Condamine, I want to clarify that it is the profits for the sector that have gone up by 45 per cent, not power bills themselves. Is that correct?

Ms Vagg: Our report covers the profits for the sector. There is one retail entity included in this report: Ergon Energy Queensland. It covers regional Queensland and its prices are regulated by the Queensland Competition Authority. In terms of other retail customers within the Queensland area, if they are serviced by private sector entities they are not covered by this report. Circling back, that is correct: it is the profit for the sector that we are talking about in this report.

Ms PUGH: My question is a little bit forward projecting but I refer to the entry of Alinta into the market and the reductions that we are seeing. It is quite a big push. I see them out in my local shopping centres marketing, which is good. Has that had any impact on this current report going forward and what you anticipate the downward pressure on prices would be?

Ms Vagg: In terms of ultimate costs to customers, you are right: there are many retailers that operate, particularly in South-East Queensland as it is a deregulated market. There are costs that ultimately affect a customer's bill including generators. Generators produce electricity. Then there are transmission and distribution costs to provide electricity to customers ultimately. Each of those costs ultimately will affect the retail bill. We cover the generation, transmission and distribution part of that supply chain in this report. How it affects the customers' bills ultimately is really a question for the retail businesses.

Mr MICKELBERG: Ms Vagg, you mentioned that Powerlink paid a $160 million dividend, which was to increase gearing for the entity in line with government policy. Can you tell me what the debt-to-equity ratio is for Powerlink and what effect that increase in gearing will have on the profitability and sustainability of Powerlink in the future?

Ms Vagg: I might have to take the debt-to-equity ratio question on notice, if you do not mind. The government will set targets which are in line with a similar target set by the Australian Energy Regulator about a standard business ratio for debt to equity. One way to make changes to those debt-to-equity ratios is through dividend payments, particularly if they are funded through borrowings into the future. That is what has happened here, and the government has made that policy decision.

In terms of the sustainability of Powerlink, we have not raised any concerns in this report about the long-term sustainability of Powerlink, even with the debt-to-equity change. Powerlink is regulated by the Australian Energy Regulator, which should provide sufficient returns on and of their assets to continue to operate a sustainable business.

Mr MICKELBERG: Presumably the increased borrowing costs would have had a negative impact on profitability had that dividend not been paid?

Ms Vagg: That would be right. Higher borrowings result in higher interest costs.

CHAIR: Certainly there are the issues of borrowings for funding infrastructure in there as well. The issue of the debt-to-equity ratio is a question on notice. We have touched on that being in line with the industry standards. The question specifically is about the debt-to-equity ratios—

Mr MICKELBERG:—of Powerlink, just Powerlink.

CHAIR:—about Powerlink itself.

Ms Bird: That is fine. We will take that on notice.

CHAIR: In relation to water, the issue we talked about regarding the significant control deficiencies is obviously a bit of a different one to what has happened in energy.

Ms Vagg: Yes.

CHAIR: You touched on what is involved there. Can you talk a bit more about that? Once again, I am keen to see whether those entities have responded in a positive manner or have taken steps to actively address these concerns.

Ms Vagg: Those issues relate to SunWater. There were two issues raised which we rated as high risk. That relates to the level of user access in finance systems, which we felt was inappropriate, and also the lack of segregation of duties in some of the processing within the systems. They are rated as high risk because we believe it increases the risk of the financial reports being misstated. It also potentially increases the risk that management reporting is inaccurate. In response to that we did more transactional testing within the organisation. As a result of that increased testing, we did not find any material misstatement or issues with reporting within the entity. We have raised it as a high risk, but we did not find any evidence that financial statements are misstated as a result of it. What we have seen is appropriate responses from management, so they have acted to respond to it and correct it fairly quickly.

CHAIR: So this relates to processing transactions? What kinds of transactions would they be?

Ms Vagg: Anything through the finance system. There are expenditure and accounts payable systems. That is mostly what it would relate to.

CHAIR: New plant or contractors maintaining or installing new plant; is that correct? Is that an example?

Ms Vagg: It would be paying the expenses associated with that. In terms of contractual decision-making about who would undertake that and the costs associated with it, that procurement decision sits outside of the system. It would be the processing of the expenses associated with it.

Mr WEIR: Coming from regional Queensland, obviously I am interested in your comments about the electricity network in regional Queensland and the challenges there. Would you like to expand on that?

Ms Vagg: In each of our reports over the years we have raised that regional distribution networks have their challenges—they are widespread with a limited customer base—so we have noted that the returns provided for those distribution networks are handled separately from the returns provided for South-East Queensland networks, for example, being regulated through two different regulation schemes. It certainly is a challenge to maintain and fund a regional network and it continues to be a challenge for Energy Queensland.

Mr WEIR: Is that an ageing network? Is it a lack of capacity? What is the main challenge?

Ms Vagg: In terms of the capacity and reliability of the network, that is certainly handled and monitored by energy regulators. The returns are also managed by energy regulators to make sure there are sufficient prices or revenue associated with those assets to maintain that particular network. We have not seen any evidence from a financial perspective in terms of whether the asset values are supported through the revenue streams. Our conclusion is that the assets are supported by the revenue streams and that there are not any technological or ageing issues which would affect the value of those assets or indicate that their useful lives will be shorter.

Mr MADDEN: I think I heard you right when you said that Seqwater did not return a dividend for the year.

Ms Vagg: That is right.

Mr MADDEN: I am just curious as to whether that is usual. How does that compare with the water distributors like QUU—whether they return a dividend or not?

Ms Vagg: I will start with Seqwater. It has not returned a dividend to government, nor has it for a number of years. Seqwater does not return a dividend to government because it makes operating losses, and it will continue to make operating losses while the pricing regime up until 2028 is being put in place by government. I do not mean 'losses until 2028'; the pricing regime to repay debt and make the entity sustainable runs up to 2028. That is right: Seqwater does not return to government. Both Queensland Urban Utilities and Unitywater, which are the receivers of bulk water services from Seqwater, do make profits and do make returns to the participating councils.

Mr BATT: When I spoke earlier about the future challenges and emerging risks you mentioned useful life of assets. Could you go through the useful life of the energy generators that you covered during the report?

Ms Vagg: While it is not specified in this particular report, the average useful lives of the assets are disclosed in the financial reports of both Stanwell and CS Energy. They sit in the order of 30 to 35 years for the power stations that they do own and around three to five years for overhauls that they capitalise and depreciate. As auditors, we assess those useful lives because they affect the appreciation expense of the entity and we assess those useful lives as being reasonable. Management has been through a reasonable process to identify the lives of those assets. We have not raised any issues from that perspective, but it is something we look at annually.

Mr BATT: Thirty to 35 years left?

Ms Vagg: No, that is the overall estimated useful life for the assets.

Mr BATT: How long do they have remaining?

Ms Vagg: Remaining useful life is not disclosed in the financial statements and it is not disclosed in our report. That is not something that is publicly available.

CHAIR: That would be, 'When was the tower installed?' et cetera.

Ms PUGH: With regard to the water audit, your report highlights a number of improvements that Seqwater have made in relation to their financial reporting. Are you able to expand on these for the committee?

Ms Vagg: Historically, Seqwater have had some issues with their financial statement preparation processes. That is mainly related to the valuation model used to provide a value to bulk water assets for financial reporting purposes. We raised a number of issues in terms of the quality of that model and the timeliness of preparation of that model in previous years. What we did see this year for the 2016-17 results was management preparing a model on a more timely basis, and the quality of the information and of that model was significantly better than in previous years. As a result, they met their statutory reporting time frame for the first time in three years.

Mr MICKELBERG: You spoke about the significant increase in profitability across the energy sector in the most recent reporting period. It has been reported that the ACCC has been investigating the bidding practices of CS Energy and Stanwell, who have also seen the Australian Energy Regulator criticise those arrangements with regard to the bidding practices of Queensland state owned electricity generators.

CHAIR: Member for Buderim, just make sure this is not a statement.

Mr MICKELBERG: My question is: did such behaviour result in increased profitability for the state owned energy generators?

Ms Vagg: We look at the outcome of the market, so market prices in terms of the profitability for the entity. In terms of how the market prices get to where they are, that is a matter for those particular organisations. While we did make some comment generally as to why the market prices are what they are in terms of supply and demand in the market, carbon policy and a hot summer, any more detail than that is probably not something that would be covered by our report.

Mr MICKELBERG: It is not a matter of policy within those two entities, CS Energy and Stanwell?

CHAIR: Bear in mind you are asking for opinions on policy.

Mr MICKELBERG: No, I am asking with respect to the factual policy that is held by CS Energy and Stanwell in relation to bidding practices and their approach to pricing. Do you investigate those matters?

Ms Vagg: No, we do not. We look at the accuracy and completeness of the financial outcome of any particular strategies put in place by those organisations and we do not comment on those particular strategies.

CHAIR: We have talked a bit about assets. I am thinking specifically of assets such as the western corridor recycling scheme, which is an asset that has a long life left in it. Was the ongoing life of those assets that are not yet fully utilised considered?

Ms Vagg: We certainly look at all of the assets in the sector and within Seqwater. That includes the Gold Coast desalination plant and the western corridor recycled water assets. The main thing we look at in terms of those two assets is whether the entity as a whole is earning sufficient revenue to maintain and support the assets, including their dam infrastructure. All of the assets are combined to assess whether there is sufficient revenue for those assets to be maintained and provided at the value that they are in the financial statements. Our report also looks at the maintenance costs associated with those particular assets and when they are likely to be returned to service.

Mr WEIR: What were your findings? I presume that is what you talk about when you mention climate resilience assets. That was—

Ms Vagg: The western corridor recycled scheme and the desalination plant, yes.

Mr WEIR: I notice that there are 37 water treatment plants. That would include those as well? Obviously, Seqwater is making a loss. How much does that contribute to the losses that Seqwater is making? What options are there for that side of the entity to become operational?

Ms Vagg: In terms of Seqwater and the value assigned to the assets for financial reporting purposes, the entity looks at future cash flows associated with those particular assets—how much revenue can be earned in terms of sales from those assets and how much money needs to be spent in terms of maintaining and augmenting those assets. That is put into a discounted cash flow model and a value is assigned for financial reporting purposes. The desalination plant and the Western Corridor Recycled Water Scheme are included in that valuation modelling.

In terms of whether the revenue streams within those models are sufficient, the government, together with the QCA, has a pricing regime in place for Seqwater's assets. We have noted in our report that there has been some historical underrecovery of costs associated with those assets, but a pricing regime is in place to fully recover the costs of those assets into the future. Overall, looking at the pricing regime, it is sustainable in the longer term for Seqwater, even though there are operating losses currently for this particular entity.

Mr WEIR: What is happening to the water that goes through the desalination plants? Is that going back into the system? Is it being utilised? What happens with those desalination treatment plants?

Ms Vagg: In terms of the desalination plant, it has produced water that has been provided into the water grid. Any sales related to that water is included in Seqwater's revenue amounts in the financial statements.

Mr WEIR: And Luggage Point?

Ms Vagg: I could not tell you specifically about Luggage Point, other than that it is being used in the western corridor recycled process. I can take it on notice if you would like some information there.

CHAIR: Are you happy with that?

Mr WEIR: Yes.

Mr MADDEN: I apologise in advance as my question is again outside your audit. I am the member for Ipswich West and I am concerned about Swanbank E coming back on line. It was my understanding that the water they used came from the Bundamba western corridor treatment plant. Is that correct? Does that mean that more dividend was paid? Did the Bundamba water treatment plant suddenly start producing a dividend?

Ms Vagg: That is more detail than is included in our report and also the financial statements for Stanwell. In terms of what is included, if there are any costs paid for water they will be included in the expenses of Stanwell. That is probably all of the information that we can provide.

CHAIR: The last committee went out to the western corridor and the desalination plant. I am not saying that we need to do that, but that committee found it quite illuminating. I will flag now that maybe we will discuss going out to look at these assets or facilities.

Mr BATT: In relation to energy, you mentioned the profits and the dividend for the last financial year that they have reported on. Is it part of your work to go into what profits and dividends are expected in the next financial year or future financial years? Do you have those for the overall sector?

Ms Vagg: We look at forecasts for the entity from a going concern and sustainability perspective. To provide an audit opinion on a set of financial statements we need to conclude that it is a going concern. That means that it can pay its debts in the next year and subsequently. In looking at prospective information, we do it from that perspective: do the budgets and forecasts support the entity being a going concern going forward? In terms of those numbers, that is not for our report to disclose. That is through the government budget processes, and future financial statements of these entities will disclose that.

Ms PUGH: I note under the heading 'Future challenges and emerging risks' you identified that there are a lot of capital works anticipated over the next 10 years. Can you expand on what some of those might be and what impacts you think they will have on revenue going forward?

Ms Vagg: There are plans set by the government in terms of infrastructure planning for water assets, particularly in the bulk water space. They are covered in the public arena within those particular plans. There is not significant augmentation expected for Seqwater's assets in the next 10 years. That is covered in our report, although we say that post that 10-year period there are significant plans there. From a financial reporting perspective, which is what we look at, it goes into that discounted cash flow model to determine the value of the assets.

In terms of augmentation and growth within the distributor-retailer business, we make comment in the report about growth associated with development and in particular those contributions by developers in terms of cash and assets, which are contributed into those distributor-retailer asset bases.

Mr MICKELBERG: You mentioned Seqwater's pricing plan for 2028. Is that a public document? If not, can we get it tabled so that we can review it?

Ms Vagg: They are public documents. The Queensland Competition Authority publishes pricing information related to Seqwater. It is public information.

Mr MICKELBERG: You spoke about the operating losses that Seqwater has experienced and you mentioned that they will be addressed by pricing decisions through the QCA process. Presumably, we do not expect to see the increases for Seqwater decrease over the long term. Your assessment was that it is sustainable. Presumably, you would expect an increase to water prices above the cost of inflation in order to close that gap between the current loss and profitability?

CHAIR: Member for Buderim, I think you are asking for an opinion going beyond the scheme.

Mr MICKELBERG: I will reframe the question. Could you provide me with the assumptions that you used for your discounted cash flow model in relation to pricing so that I can assess the pricing increases that you have used to justify the depreciation?

CHAIR: Member for Buderim, I think they are the ones referred to as the public documents of the competition authority.

Ms Vagg: That is right. The pricing information is included in the Queensland Competition Authority pricing. The assumptions in the discounted cash flow model are included in Seqwater's financial reports. They are disclosed in there. As auditors, we check that any assumptions in that model agree with things like the QCA's pricing determination. In terms of any assumptions in there, which are estimated or rely on management judgement, we apply our own judgement to conclude whether it is reasonable or not. We have not raised any issues with the assumptions within Seqwater's model for asset valuation purposes.

Mr MADDEN: Getting back to my question about the Bundamba water treatment plant and the western corridor, who owns that asset? Is it QUU? Is it the state government?

Ms Vagg: The western corridor recycled water assets are owned by Seqwater. In terms of the detail of where those assets move in terms of pipelines et cetera between the distributor-retailers and Seqwater, I would need to come back to you. If you had a particular question on a particular asset—

Mr MADDEN: My main question was whether it was Seqwater, QUU or another entity. It is Seqwater?

Ms Vagg: The Western Corridor Recycled Water Scheme is Seqwater's asset.

Mr WEIR: I refer to SunWater. I notice the following comment in the report—

SunWater's sustainability depends on the future returns provided through pricing set by the Queensland Government and funding of any shortfall in the Dam Safety Improvement Program.

Are there any identified problems with dams? I notice in the report there is reference to the 2008 act.

Ms Vagg: In terms of our perspective with financial statements, we assess whether there is any impairment of the assets held by SunWater. Technology and quality of assets are part of that assessment. We did not identify any issues from our perspective that should have resulted in an impairment or writedown of those assets related to the quality of those assets. That is the level that we report at. In terms of the dam safety program being implemented by SunWater, I think that is better referred to SunWater for more detailed information.

CHAIR: We have talked a bit about the life of assets. The member for Bundaberg talked about that as well. Transmission charges are used to fund the renewal of those assets; is that correct?

Ms Vagg: Transmission charges are the charges for Powerlink's assets that they will charge to their customers, who are mostly distributors. Those charges are set by the Australian Energy Regulator. They cap the amount of revenue that Powerlink can earn from their assets. In terms of how they determine what that charge is, it is a mechanism determined by the Energy Regulator. It provides for a return on the assets. It provides for a replacement of those assets and the maintenance of those assets.

Mr MICKELBERG: Transmission costs relate to Powerlink and distribution costs relate to Energex and Ergon and retailers; is that right?

Ms Vagg: That is right. Transmission costs relate to Powerlink and distribution costs relate to Energy Queensland's distribution service providers, Energex and Ergon Energy.

Mr MICKELBERG: When you talk about distribution costs in regional Queensland being high, you are really referring to the retail distribution, not the Powerlink transmission?

Ms Vagg: Powerlink also operates in regional Queensland, but specifically I was referring to Ergon Energy—the distribution entity, not the retail entity.

Ms PUGH: You mentioned the uncertain carbon policy at the federal level. You cannot see into the future, but if we were to go back through your previous reports year on year, when did that start to become a factor in energy pricing? Over what period of time has uncertain carbon pricing at the federal level impacted on state power prices?

Ms Vagg: That is probably more of a question for the government rather than the financial reporting outcome. There are many things that affect electricity pricing and renewables. Carbon pricing is one of them. We certainly specifically look at it from an asset valuation perspective. Uncertainty of carbon policy and renewable policy can affect both prices and asset values. Historically, there has been information in our reports, particularly from the asset valuation perspective and whether uncertainty of policy has affected asset values. Yes, there is historical information in there. This particular report does not link it to retail prices; it just links carbon and renewable energy policy to the National Electricity Market wholesale prices.

Mr BATT: You mentioned earlier the assets—up seven per cent—including the $700 million from the state for the three-year Solar Bonus Scheme. How does that work? The $700 million has gone in in one lump sum and then comes out over the next three years?

Ms Vagg: Yes, that is correct. Previously, retail customers were charged for that. The government's policy decision was that the government would make a $711 million payment for Energy Queensland to fund the solar tariff support rather than from retail customers. Over the next three years that will be unwound and used by that entity.

Mr BATT: With it coming in one lump sum, does that mean that in the next two financial years that asset would reduce as that money is spent?

Ms Vagg: Yes, that is right. They are both an asset and a liability—the unearned revenue associated with it. Both of those balances will reduce over the next three years.

CHAIR: Thank you. The time for the briefing has expired. We have two questions on notice. We would appreciate the answers to those questions being provided by 12 noon on Monday, 21 May. Thank you for your attendance at today's public hearing. I thank our Hansard reporters. I thank the secretariat. I declare the briefing closed.

The committee adjourned at 12.31 pm.