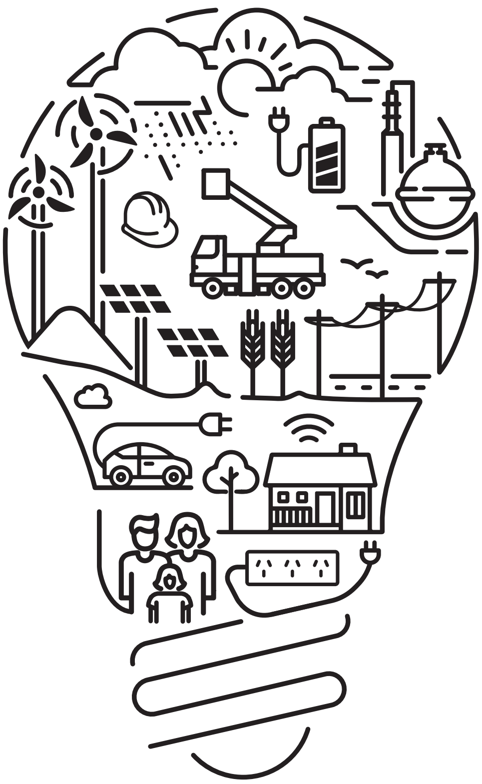

Ergon Energy Queensland Pty Ltd Annual Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

ABN 11 121 177 802

RETAIL

Ergon Energy Queensland Pty Ltd

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For the year ended 30 June 2022

Ergon Energy Queensland Pty Ltd

Directors' Report
For the year ended 30 June 2022

The Directors present their report together with the financial report of Ergon Energy Queensland Pty Ltd ("the Company") for the year ended 30 June 2022 and the auditor's report thereon.

Directors
The names of Directors in office at any time during or since the end of the last financial year end are:

	Date Appointed	Date Ceased
• Peter Scott (Chairman)	3 October 2017	n/a
• Rod Duke	1 April 2020	n/a
• Belinda Watton	26 June 2018	26 November 2021
• Jane Nant	26 June 2018	n/a
• Michael Dart	26 November 2021	n/a

Company Secretaries

Jane Nant BA (Hons), LLB (Hons), LLM, Grad Dip ACG, GAICD, FGIA

Jane was appointed to the role of Company Secretary in May 2017. Jane has over 14 years senior leadership experience in the utilities industry including over 12 years as Company Secretary. Jane started her career as a property, planning and environmental lawyer.

Debra Grieve LLB, GAICD

Debra was appointed as an additional Company Secretary in November 2021. Debra has over 15 years executive experience in the education and arts industries including over ten years in company secretary roles. Debra started her career as a personal injuries and commercial litigation lawyer.

Principal activities
The principal activity of the Company during the financial year was non-contestable electricity retailing in regional Queensland.

Dividends
A liability for dividends payable is recognised in the financial year in which the dividend is declared. The Board declared a final dividend equal to 100% of the Company's profit after income tax equivalent expense, adjusted for material non-cash items and up to the amount of net assets in the Company. As a result, a dividend of $44.996 million has been recognised in the financial statements. This dividend is payable on 30 November 2022. A final dividend of $100.114 million was declared during the 2021 financial year and paid on 30 November 2021.

Operating and financial review
The Company's profit after income tax equivalent expense was $197.693 million for the year (2021: $145.033 million).

Revenue from sales of electricity is lower when compared to 2021 due to a decrease in 2022 notified prices as published by the Queensland Competition Authority. Residential tariff rates were seven percent lower, with small business and large business rates decreasing by four percent and three percent respectively. Notwithstanding, energy consumption increased slightly in 2022.

Total wholesale electricity purchasing costs increased when compared to 2021 due to challenging wholesale electricity market conditions. Long term power station outages at Callide C and Swanbank E, combined with a number of short term power station outages, and works on the Queensland-New South Wales Interconnector upgrade project, constrained the supply of electricity generation into the market.

The first half of the financial year observed subdued and negative middle of the day spot prices with lower demand and strong renewable generation, combined with volatile high evening peak prices due to the supply constraints. Heatwave conditions experienced during the March 2022 quarter and a cold snap in the latter part of the year, placed extreme demand levels in the market adding further pressure to supply. Domestic and international issues caused domestic gas and coal prices to rise to record levels throughout the second half of the year. These market factors combined, drove the average Queensland electricity spot price, to the highest financial year average price on record of $162.06/MWh ($61.81/MWh in 2021). To mitigate the adverse effects of this dynamic energy market, the company managed its load shape and associated wholesale energy risks, by maintaining a portfolio of electricity hedges and power purchase agreements together with targeted use of Barcaldine Power Station and demand side response capability.

Fair value gains on financial instruments were recognised during the year due to the significant increase in forward electricity contract prices. The unprecedented market movements on forward contract prices have been driven by the spot price market volatility combined with constrained market liquidity. These movements have been recognised in the Cash Flow Hedging Reserve and the Statement of Profit and Loss.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the year.

Significant events after the end of the reporting period

No matters or circumstances have occurred since the end of the financial year which significantly affected or may significantly affect the operations of the Company, or the state of affairs in future financial years.

Likely developments and future results

The Company continues to sell electricity in regional Queensland at the Queensland Government's notified prices.

Community Service Obligations

The Company is legally required to charge its retail customers in regional Queensland at notified prices set by the Queensland Competition Authority. As a consequence, the tariff revenue collected is below the cost of supplying electricity. The Community Service Obligation (CSO) payments are received in return for compliance with the commitment to state-wide uniform tariffs for franchise customers. From 1 January 2018, the Company's parent, Energy Queensland Limited (EQL), entered a fixed CSO agreement with the Queensland Government (the State). The compensation is an agreed fixed payment based on forecast revenue and associated shortfalls from electricity sales to franchise customers of the Company. The CSO is recognised on an actual incurred basis in the accounts of Ergon Energy Queensland, with an intercompany receivable from Energy Queensland for that amount. Consequently, Energy Queensland bears the risk of estimation uncertainty related to the CSO. A new one-year fixed CSO agreement has been executed effective from 1 July 2022.

Environmental regulation and performance

The Company's environmental obligations are regulated under Federal, State and Local government laws. All environmental performance obligations are reported monthly, and are from time to time, subject to government agency audits, as well as internal and external audits undertaken as part of fulfilling environmental management requirements which ensures compliance. No environmental breaches occurred during the financial period.

Indemnification and insurance of directors and officers

A policy was held throughout the year to insure all Directors and officers of the Company against liabilities incurred in their capacity as Director and Officer.

Energy Queensland Limited (the parent entity) indemnifies the Directors and Officers of the Company for all liabilities and expenses incurred by the Directors and Officers, arising out of or in connection with their role as a Director or Officer, other than: any liability or expense arising from conduct that was deliberately dishonest, deliberately fraudulent or not in good faith, a liability owed to the Company, or any criminal or pecuniary penalty.

During or since the end of the financial year, the Company has not, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against a liability incurred as such by an officer or auditor.

Auditor's independence declaration

The Auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the year ended 30 June 2022.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the company under ASIC Corporations Instrument 2016/191. The company is an entity to which the instrument applies.

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

P Scott
Chairman
Brisbane
16 August 2022

AUDITOR'S INDEPENDENCE DECLARATION

To the Members of Ergon Energy Queensland Pty Ltd.

This auditor's independence declaration has been provided pursuant to s.307C of *the Corporations Act 2001*.

Independence Declaration

As lead auditor for the audit of Ergon Energy Queensland Pty Ltd for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- no contraventions of any applicable code of professional conduct in relation to the audit.

IAsim

16 August 2022

Irshaad Asim — Queensland Audit Office

As delegate of the Auditor-General — Brisbane

Ergon Energy Queensland Pty Ltd

Statement of profit or loss
For the year ended 30 June 2022

Statement of profit or loss

In thousands of dollars	Note	2022	2021
Revenue	2	**1,721,253**	1,838,096
Fair value gains	2	**517,740**	52,540
Network charges / electricity purchases	3	**1,600,391**	1,298,180
Solar photovoltaic feed in tariff		**122,131**	128,971
Materials and services		**40,047**	47,128
Depreciation, amortisation and impairments		**9,368**	13,750
Net impairment losses on financial assets	6	**2,004**	8,072
Finance costs		**569**	533
Environmental certificate compliance expenses		**139,124**	139,113
Other expenses		**42,941**	47,699
Profit before income tax equivalent expense		**282,418**	207,190
Income tax equivalent expense	4	**84,725**	62,157
Profit after income tax equivalent expense		**197,693**	145,033

The statement of profit or loss is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of comprehensive income
For the year ended 30 June 2022

Statement of comprehensive income

In thousands of dollars	Note	2022	2021
Profit after income tax equivalent expense		**197,693**	145,033
Other comprehensive income			
Items that may be reclassified to the profit or loss			
Movement in cash flow hedge reserve	13	**1,206,089**	253,737
Deferred income tax relating to cash flow hedge reserve movement		**(361,827)**	(76,121)
Items that will not be reclassified to the profit or loss			
Revaluation of property, plant and equipment		**-**	(2,067)
Deferred income tax relating to revaluation of property, plant and equipment		**-**	620
Other comprehensive income for the financial year, net of tax		**844,262**	176,169
Total comprehensive income		**1,041,955**	321,202
Profit attributable to:			
Shareholder of the Company		**197,693**	145,033
Total comprehensive income/(loss) attributable to:			
Shareholder of the Company		**1,041,955**	321,202

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of financial position
For the year ended 30 June 2022

Statement of financial position

In thousands of dollars	Note	2022	2021
CURRENT ASSETS			
Cash and cash equivalents	5	**64,597**	48,852
Trade and other receivables	6	**788,946**	462,881
Derivative financial instrument assets	7	**1,174,193**	95,891
Other current assets	14	**44,530**	43,396
Total current assets		**2,072,266**	651,020
NON-CURRENT ASSETS			
Property, plant and equipment		**1,471**	1,602
Intangible assets	15	**21,230**	25,307
Derivative financial instrument assets	7	**140,589**	18,911
Total non-current assets		**163,290**	45,820
TOTAL ASSETS		**2,235,556**	696,840
CURRENT LIABILITIES			
Trade and other payables	8	**555,902**	405,854
Interest bearing liabilities	9	**11,194**	11,593
Provisions		**7,884**	186
Derivative financial instrument liabilities	10	**8,478**	1,194
Other current liabilities	17	**55,011**	46,208
Total current liabilities		**638,469**	465,035
NON-CURRENT LIABILITIES			
Derivative financial instrument liabilities	10	**15,253**	-
Provisions		**2,212**	2,212
Net deferred tax equivalent liability	16	**361,575**	8,505
Total non-current liabilities		**379,040**	10,717
TOTAL LIABILITIES		**1,017,509**	475,752
NET ASSETS		**1,218,047**	221,088
EQUITY			
Share capital	18	**-**	**-**
Hedging reserve		**886,897**	**42,635**
Retained earnings		**331,150**	**178,453**
TOTAL EQUITY		**1,218,047**	**221,088**

The statement of financial position is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of changes in equity

For the year ended 30 June 2022

Statement of changes in equity

In thousands of dollars	Share capital (Note 18)	Hedging reserve	Asset revaluation reserve	Retained earnings	Total equity
Changes in equity for 2021					
Balance at 1 July 2020	-	(134,981)	1,447	133,534	-
Dividends	-	-	-	(100,114)	(100,114)
Total comprehensive income for the financial year	-	177,616	(1,447)	145,033	321,202
Balance at 30 June 2021	-	42,635	-	178,453	221,088
Changes in equity for 2022					
Dividends	**-**	**-**	**-**	**(44,996)**	**(44,996)**
Total comprehensive income for the financial year	**-**	**844,262**	**-**	**197,693**	**1,041,955**
Balance at 30 June 2022	**-**	**886,897**	**-**	**331,150**	**1,218,047**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of cash flows

For the year ended 30 June 2022

Statement of cash flows

In thousands of dollars	Note	2022	2021
Cash flows from operating activities			
Receipts from customers		**2,128,198**	2,568,009
Receipts for community service obligations		**543,889**	487,819
Payments to suppliers		**(2,520,175)**	(2,942,444)
Interest received		**341**	256
Interest paid		**(569)**	(533)
Income tax equivalent payments		**(30,317)**	(63,736)
Net cash inflow from operating activities	5	**121,367**	49,371
Cash flows from investing activities			
Payments for intangibles and property, plant and equipment		**(5,109)**	(785)
Net cash outflow used in investing activities		**(5,109)**	(785)
Cash flows from financing activities			
Repayment of repayable deposits		**(399)**	(771)
Dividends paid		**(100,114)**	(13,269)
Net cash outflow used in financing activities		**(100,513)**	(14,040)
Net increase in cash and cash equivalents		**15,745**	34,546
Cash and cash equivalents at the beginning of the financial year		**48,852**	14,306
Cash and cash equivalents at the end of the financial year	5	**64,597**	48,852

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

SECTION 1: Basis of Preparation

Note 1: Basis of preparation

Ergon Energy Queensland Pty Ltd (the Company) is a proprietary company limited by shares and is a company domiciled in Australia.

The Company's registered office and its principal place of business are:

420 Flinders St
Townsville Queensland 4810

The Company is a for-profit entity.

The principal activity of the Company during the financial period was non-contestable electricity retailing in regional Queensland.

The financial statements were authorised for issue by the Directors on the 16^{th} of August 2022.

The parent entity of the Company is Energy Queensland Limited, which is a Queensland State Government Owned Corporation.

(a) Statement of compliance

The financial statements are a general purpose financial report that have been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001*, provisions of the *Government Owned Corporations Act 1993* (the Act), and provisions of the *Corporations Regulations 2001*, and other relevant legislation issued pursuant to the Act.

(b) Basis of preparation

The financial statements are presented in Australian dollars. The amounts contained in the financial statements have been rounded to the nearest thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Furthermore, there are no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Historical cost convention

The financial statements are prepared on the historical cost basis, except for the valuation of the generation asset and certain financial assets and liabilities at fair value.

(c) Changes in accounting policies

There are no new or revised standards effective for the year ended 30 June 2022 that will have a significant impact on the Company's financial statements compared to 30 June 2021.

(d) Application of new and amended accounting standards and interpretations not yet adopted

The Australian Accounting Standards Board (AASB) has published new or amended accounting standards and interpretations that are not mandatory for the 30 June 2022 reporting period and none of these have been early adopted by the Company.

No standards or interpretations that are not yet effective are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

SECTION 2: Profit or Loss Information

Note 2: Revenue and other income

In thousands of dollars	2022	2021
(a) Revenue from contracts with customers		
Sales revenue – related party	**1,686**	2,177
Sales revenue	**1,669,077**	1,795,476
Other revenue	**50,490**	40,443
Total revenue from contracts with customers	**1,721,253**	1,838,096
(b) Fair value gains		
Fair value gains on financial instruments at fair value through profit or loss	**264,488**	40,954
Hedge ineffectiveness gains	**253,313**	11,556
Fair value gains on energy certificates at fair value through profit or loss	**(61)**	30
Total fair value gains	**517,740**	52,540
Disaggregation of revenue from contracts with customers – timing of revenue recognition		
Revenue received over time:		
Energy supply charges	**1,670,763**	1,797,653
Metering charges	**35,989**	32,248
Generation and energy related services	**10,925**	5,469
Total revenue received over time	**1,717,677**	1,835,370
Revenue received at a point in time:		
Fee for service charges	**3,576**	2,726
Total revenue received at a point in time	**3,576**	2,726
Total revenue from contracts with customers	**1,721,253**	1,838,096

Performance obligations and revenue recognition policies

Revenue is measured at the fair value of the consideration received or receivable. Revenue recognised for electricity sales is the aggregate of invoices raised, together with the estimated used but not yet invoiced energy consumption.

As the energy is simultaneously delivered and consumed by customers, the revenue is recognised over time in accordance with the Company's performance obligations under the contract. Payment terms on invoices to customers are usually 14 business days and the recovery of these receivables is assessed through the impairment review of financial assets which applies the expected credit loss model as described in Note 6.

Avoided Transmission Use of Systems (TUOS) charges due to the use of the Barcaldine Generator is received from a related party and recognised over time based on generation from the plant. Other revenue includes metering service charges to retail customers for the capital cost and ongoing operation and maintenance of their meters. The customer is billed for this service via a fixed daily rate based on QCA notified tariffs for meter services and this revenue is recognised over time. Revenue for generation from the Barcaldine power plant and other energy related services are all recognised over time.

Other revenue also includes fee for service charges (such as callouts, supply enhancement/abolishment, connection asset services and watchman lights) which are recognised at the point in time when the service is provided and billed to the customer.

Note 2: Revenue and other income (continued)

Critical accounting estimates and judgements

Unbilled energy sales

Sales revenue accrual estimates are made to account for the unbilled period between the customers last billed meter read and the end of the reporting period. Unbilled energy sales are accrued monthly using historical billing data adjusted for seasonality.

Note 3: Expenses

In thousands of dollars	2022	2021
Profit before income tax equivalent expense includes the following specific expenses:		
Network charges / electricity purchases		
Cost of sales	**817,965**	490,693
Cost of sales – related party	**1,276,871**	1,250,959
less Community service obligation	**(494,445)**	(443,472)
	1,600,391	1,298,180

Accounting policies

Expenses

Network charges / electricity purchases

Transmission use of system (TUOS) expenses, electricity purchases and other costs associated with the sale of electricity are recognised as they are incurred.

Network charges are recognised on an accrual basis with the unbilled charges being based on an estimate of the usage of the distribution network.

Electricity purchases are calculated on an accrual basis, recognising the amount of electricity consumed from the National Electricity Market (NEM) multiplied by the relevant pool prices.

Community service obligations offset

Community service obligation (CSO) receipts are recognised as a contra expense against the transmission charges and electricity purchases as part of the cost of sales. The Company is legally required to charge its franchise retail customers in regional Queensland at notified prices. As a consequence, the tariff revenue collected is below the cost of supplying electricity. A Deed between the Company’s parent, Energy Queensland Limited, and the State of Queensland provides for CSO payments to be made by the State of Queensland to Energy Queensland Limited.

Critical accounting estimates and judgements

Unbilled network charges

Unbilled network charges are accrued monthly. The calculation uses historic volumes as well as considering seasonality to estimate the unbilled network charges.

Community Service Obligation

The CSO payments are made in return for compliance with commitment to state-wide uniform tariffs for franchise customers. From 1 January 2018, the Company’s parent, Energy Queensland Limited, entered a fixed CSO agreement with the Queensland Government (the State). The compensation is a fixed payment based on forecast revenue and matching costs from electricity sales to franchise customers of the Company on the basis that Energy Queensland Limited is assuming the risk, and any benefits, inherent in a fixed payment based on forecast. The CSO is recognised on an actual consumed basis in the accounts of Ergon Energy Queensland, with an intercompany receivable from Energy Queensland Limited for that amount. A new one-year fixed CSO agreement has been executed effective from 1 July 2022.

Notes to the financial statements

For the year ended 30 June 2022

Note 4: Taxation

In thousands of dollars	2022	2021
(a) Income tax equivalent expense		
Current tax expense	**93,449**	30,285
Deferred tax expense	**(8,724)**	31,872
Under/(over) provision in prior year	**-**	-
Income tax equivalent expense	**84,725**	62,157
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**(8,660)**	23,375
Increase/(decrease) in deferred tax liabilities	**(64)**	8,497
Income tax expense attributable to profit from continuing operations	**(8,724)**	31,872
(b) Numerical reconciliation of income tax equivalent expense to prima facie notional tax equivalents payable		
Net profit before income tax equivalent expense	**282,418**	207,190
Prima facie income tax equivalent expense on operating profit at 30% (2021: 30%)	**84,725**	62,157
Under/(over) provision in prior years	**-**	-
Income tax equivalent expense	**84,725**	62,157
(c) Deferred tax recognised directly in equity		
Revaluation of property, plant and equipment	**-**	(620)
Hedge accounting of derivatives	**361,827**	76,121
Deferred tax recognised directly in equity	**361,827**	75,501

Accounting policies for taxation are included at Note 16.

SECTION 3: Financial Assets and Liabilities

Financial Assets

Note 5: Cash and cash equivalents

In thousands of dollars	2022	2021
Cash at bank and on hand	**64,597**	48,852
Total cash and cash equivalents	**64,597**	48,852

Reconciliation of profit/(loss) after income tax equivalent expense/(benefit) to the net cash flows provided by operating activities

Profit after income tax equivalent expense	**197,693**	145,033
Non-cash flows in profit from ordinary activities		
Depreciation, amortisation and impairments	**11,372**	21,821
Movement in provisions	**2**	6
Gain on revaluation of financial instruments at fair value through profit or loss	**(218,198)**	(52,510)
Loss/(gain) on revaluation of energy certificates at fair value through profit or loss	**61**	(30)
Income tax equivalent expense	**84,725**	62,157
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**169,226**	490,163
(Increase)/decrease in other assets	**245,649**	(29,697)
(Decrease)/increase in trade and other payables	**(369,109)**	(613,917)
(Decrease)/increase in other liabilities	**8,703**	(5,539)
(Decrease)/increase in deferred tax asset	**(8,757)**	31,884
Net cash flow provided by operating activities	**121,367**	49,371

Accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Carrying value approximates fair value. They are highly liquid and have a maturity of three months or less at date of acquisition.

Note 6: Trade and other receivables

In thousands of dollars	2022	2021
Current		
Trade receivables	**119,111**	117,928
Trade receivables – related parties[1]	**493,288**	147,730
Accrual for unread meters	**73,760**	121,999
Provision for impaired receivables	**(28,995)**	(35,953)
	657,164	351,704
Hedge and other receivables	**131,782**	111,177
Total current trade and other receivables	**788,946**	462,881

[1] Refer to Note 11(e) for funding arrangements with the parent entity which assist with the Company's short-term cash management and working capital requirements.

The fair value of all receivable amounts is consistent with the carrying value.

Impaired receivables

In thousands of dollars	2022	2022	2021	2021
Ageing of impaired receivables	**Gross**	**Impaired**	**Gross**	**Impaired**
Unbilled revenues	**73,760**	**1,064**	121,999	1,359
Current receivables not overdue	**29,155**	**3**	32,558	117
Less than one month overdue	**31,469**	**2,389**	32,038	2,670
One to two months overdue	**10,139**	**2,687**	10,888	4,433
Two to three months overdue	**5,375**	**2,142**	6,592	5,207
Over three months overdue	**24,259**	**20,710**	22,753	22,167
	174,157	**28,995**	226,828	35,953

In thousands of dollars	2022	2021
Movements in the provision for impaired receivables are as follows:		
Carrying amount at the beginning of the financial year	**35,953**	53,195
Provision for impairment released during the financial year	**(13,416)**	(11,121)
Provision for impairment recognised during the financial year	**15,420**	19,193
Receivables written off during the financial year as uncollectible	**(8,962)**	(25,314)
Carrying amount at the end of the financial year	**28,995**	35,953

The recognition and reversal of the provision for impaired receivables are included in "Net impairment losses on financial assets" in the statement of profit or loss. Amounts charged to the provision are generally written off when there is no expectation of recovery.

Note 6: Trade and other receivables (continued)

Accounting policies

Trade and other receivables

Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

The impairment model prescribed by AASB 9 *Financial Instruments* applies to the Company's trade receivables and contract assets as these are measured at amortised cost. The impairment provision is based on expected credit losses resulting from all possible default events over the expected life of the financial instrument, with consideration of the credit risk of a financial asset and the impact of changing economic factors.

A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The recoverable amount is discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of the discounting is immaterial.

The impairment percentages applied have been determined based on historical experience, then re-assessed with regard to current conditions and reasonable forecasts of future events and economic conditions. The additional analysis to consider future events and economic conditions which impact retail customers includes unemployment levels in Queensland, tariff changes and regulatory intervention.

The remaining $13.4 million of additional provisioning for impaired receivables due to COVID-19, recognised in 2021 financial statements, was released to the Statement of Profit and Loss during the year. Assessment to the general provisioning for impaired receivables has taken expected future economic environment conditions into account. Ergon Energy Queensland assisted customers experiencing financial hardship, including customers who have had drought status revoked during the year, with payment support options, hardship arrangements and government concessions.

Further disclosures in relation to credit risk are provided in note 11(a).

Unread meters

Unbilled energy sales are accrued monthly using historical billing data to create a seasonally adjusted daily profile for each customer. This is then used to calculate the estimated energy usage to the end of the accrual month. Unbilled electricity revenue is not collectible until such time as customers' meters are read and bills issued.

Note 7: Derivative financial instrument assets

In thousands of dollars	2022	2021
Current		
Electricity derivative contracts – fair value through the profit or loss	**236,018**	32,571
Electricity derivative contracts – Cash Flow Hedges	**938,175**	63,319
Total current derivative financial instrument assets	**1,174,193**	95,891
Non-Current		
Electricity derivative contracts – fair value through the profit or loss	**2,296**	42
Electricity derivative contracts – Cash Flow Hedges	**138,293**	18,869
Total non-current derivative financial instrument assets	**140,589**	18,911

Changes in the fair values of financial instruments at fair value through profit or loss are recorded in fair value gains in the statement of profit or loss. Accounting policies and critical accounting estimates and assumptions for financial instruments and hedge accounting are disclosed in notes 12 and 13.

Financial Liabilities

Note 8: Trade and other payables

In thousands of dollars	2022	2021
Current		
Trade payables and accruals	**226,326**	125,760
Trade payables – related party	**184,481**	85,500
Dividends payable	**44,996**	100,114
Hedge and other payables	**100,099**	94,480
Total current payables	**555,902**	405,854

Accounting policies

Trade and other payables

Trade and other payables are recognised initially at fair value of the legal obligation to pay cash and subsequently at amortised cost. Trade payables include an amount payable to Ergon Energy Corporation Limited for monthly network charges. The network charges are settled by the Company approximately on the 21st day of the following month. No interest is charged on outstanding invoices for network charges. The Company has financial risk management policies in place to ensure that all payables are paid within the agreed credit terms. Further disclosures in relation to liquidity risk are provided in note 11(d).

A liability for dividends payable is recognised in the financial year in which the dividend is declared. The Board declared a final dividend equal to 100% of the Company's profit after income tax equivalent expense, adjusted for material non-cash items, up to the amount of net assets in the Company. As a result, a dividend of $44.996 million has been recognised in the financial statements. This dividend is payable on 30 November 2022. A final dividend of $100.114 million was declared during the 2021 financial year and paid on 30 November 2021.

Note 9: Interest bearing liabilities

In thousands of dollars	2022	2021
Current		
Unsecured liabilities		
Customer security deposits	**11,194**	11,593
Total current interest bearing liabilities	**11,194**	11,593

Reconciliation of movements of liabilities to cash flows arising from financing activities

In thousands of dollars	2022	Financing cash flows(1)	Non-cash changes	2021
Customer security deposits	**11,194**	(399)	-	11,593
	2021			**2020**
Customer security deposits	**11,593**	(771)	-	12,364

(1) The cash flows make up the repayment of repayable deposits in the statement of cash flows.

Accounting policies

Customer security deposits

Customer security deposits are recognised initially at fair value of the legal obligation to pay cash and subsequently at amortised cost. Customer security deposits include security deposits received by the Company in relation to electricity supply to certain customers. Interest is calculated daily on the deposits and is credited to the customers' accounts every 90 days. Security deposits plus capitalised interest are refunded to customers after qualifying conditions are met or when the account is finalised.

Note 10: Derivative financial instrument liabilities

In thousands of dollars	2022	2021
Current		
Electricity derivative contracts – fair value through the profit or loss	**265**	570
Electricity derivative contracts – Cash Flow Hedges	**8,213**	624
Total current financial instrument liabilities	**8,478**	1,194
Non-Current		
Electricity derivative contracts – fair value through the profit or loss	**-**	-
Electricity derivative contracts – Cash Flow Hedges	**15,253**	-
Total non-current financial instrument liabilities	**15,253**	-

Changes in fair values of financial liabilities at fair value through profit or loss are recorded in fair value gains in the statement of profit or loss. Accounting policies and critical estimates and judgements for financial instruments and hedge accounting are disclosed in notes 12 and 13.

Financial Risk Factors Additional Disclosures

Note 11: Financial risk management

The Company has policies and procedures in place to manage the financial risks associated with its operating activities. Exposure to credit, interest rate, price, liquidity and currency risks arises in the normal course of the Company's business. Derivative financial instruments are used to manage exposure to fluctuations in electricity prices.

The financial risks faced by the Company are managed in accordance with the Energy Queensland Treasury Policy.

(a) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at or before maturity.

The Company manages its credit risks by maintaining appropriate credit review processes. The concentration of credit risk to retail customers is minimised due to transactions being with a large number of retail customers and limiting credit to any individual customer.

Where it's appropriate, collateral in the form of a cash deposit is obtained from customers as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Company held collateral of $11.194 million (2021: $11.593 million) from retail customers. Bank guarantees of $3.681 million were also held on behalf of retail customers as at 30 June 2022 (30 June 2021: $1.270 million).

The Company manages its credit settlement risk associated with Over-The-Counter (OTC) electricity market hedging by following the credit risk management guidelines in the Energy Commodity Risk Management Policy and Manual. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Company requires wholesale counterparties to provide appropriate letters of credit or bank guarantees. A total of $3.000 million in bank guarantees from wholesale OTC counterparties was held at 30 June 2022 (30 June 2021: $3.500 million).

Note 11: Financial risk management (continued)

(a) Credit risk (continued)

The Company trades with wholesale counterparties, principally large banks and other electricity corporations. In order to meet its liabilities under the Renewable Energy Target Scheme and the Small Scale Renewable Energy Scheme, the Company also trades with non-wholesale market entities.

At the balance date, there were no significant concentrations of credit risk in wholesale OTC counterparties other than those disclosed below. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

Concentrations of credit risk that arise from OTC derivative instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations of credit risk on electricity derivatives are indicated in the following table by percentage of the total estimated – worst case future loss from counterparties in the specified categories:

Counterparty classification	2022	2021
Queensland Government-owned electricity entities	**85%**	96%
Entities with a credit rating A*	**9%**	0%
Entities with a credit rating BBB*	**0%**	1%
Other entities	**6%**	3%

*Standard & Poor's or equivalent

The above credit risk exposure does not take into account the value of any collateral or security. Receivables due from major counterparties are monitored regularly.

(b) Interest rate risk

Floating interest rate borrowings expose the Company to interest rate cash flow risk.

The Company has access to same day funds through short term borrowings from the parent company via the EQL Group's Treasury Management Agreement.

In accordance with the EQL Group Treasury Policy no interest is charged on monies shared between the EQL Group entities that are captured by the Treasury Management Agreement. Refer to note 11(e) for more on the Treasury Management Agreement.

All inter-company cash management arrangements are governed by the Treasury Management Agreement.

Other liabilities exposing the Company to interest rate risk include the repayable deposits (floating interest rate exposure).

Sensitivity Analysis

At 30 June 2022, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's net profit and equity would increase or decrease by $0.534 million (2021: $0.373 million).

The following table indicates the effective interest rates on the Company's financial assets and liabilities at the end of the reporting period:

Notes to the financial statements

For the year ended 30 June 2022

Note 11: Financial risk management (continued)

(b) Interest rate risk (continued)

	Note	Floating interest rate $'000	Weighted average interest rate %
2022			
Financial assets			
Cash and cash equivalents	5	**64,597**	**0.61**
Financial liabilities			
Customer security deposits	9	**11,194**	**1.85**
2021			
Financial assets			
Cash and cash equivalents	5	**48,852**	**0.66**
Financial liabilities			
Customer security deposits	9	**11,593**	**0.50**

(c) Price risk

Electricity

Electricity price risk is the risk of an adverse financial outcome resulting from a change in the price of electricity in the NEM. This can be a change in the electricity pool price or a change in the forward price of electricity. Exposures mainly arise from positions in wholesale contracts (electricity derivatives), franchise load or power purchase agreements (PPAs). Wholesale contracts relating to franchise load are generally dealt over a period of less than three years. PPAs are measured up to the end of the contract.

To manage retail price risk, the Company has established an Energy Commodity Risk Management Policy which is implemented through the Energy Commodity Risk Management Manual. The policy provides a framework for managing risks arising from the energy purchasing activities of the Company. The manual includes a market price risk exposure limit framework, monitoring and reporting requirements and review requirements.

The Company uses derivative financial instruments to manage its electricity price risk, consumer variable volume risk and cash flow risk as well as hedge exposure to pool price fluctuations and against anticipated electricity purchases. The hedge contracts are designated against the forecast mass-market electricity load. The electricity derivative portfolio consists predominantly of swaps, caps and option contract types. Caps and option contracts are valued at fair value through profit or loss. Hedge accounting is employed for swaps with unrealised gains and losses recognised in other comprehensive income and hedge ineffectiveness recognised in the profit or loss. Refer to note 13 for further information regarding the application of hedge accounting.

Sensitivity Analysis

The following table details the Company's sensitivity to a 20% (2021: 20%) increase and decrease in the electricity forward price with all other variables held constant. Analysis of underlying forward price volatility is used as an indicator of potential forward price movement. Under the assumption that there will be no events causing significant step changes in the market such as the announcement of major plant closures, management have determined that 20% is considered a reasonably possible price movement.

In thousands of dollars	2022	2021	2022	2021
Electricity forward prices:	**+ 20%**	+ 20%	**- 20%**	- 20%
Profit / (loss) before tax	**52,861**	22,766	**(52,278)**	(21,138)
Hedging reserve	**447,442**	85,649	**(446,957)**	(87,277)
Equity	**500,303**	108,415	**(499,235)**	(108,415)

Note 11: Financial risk management (continued)

(c) Price risk (continued)

Large-scale generation certificates (LGC)

LGC price risk is the risk of an adverse outcome resulting from a change in the current or forward price of LGCs.

The Company holds LGCs to meet its annual compliance obligations under the *Renewable Energy (Electricity) Act 2000* and National Green Power Accreditation Program. A separate portfolio of LGCs is held for trading purposes.

LGCs held for compliance purposes are carried at lower of cost or net realisable value whilst LGCs held for trading are carried at fair value. The LGC compliance obligation liability is carried at lower of cost or net realisable value with shortfalls recognised at market price as a proxy for cost.

LGC entitlements under PPAs entered into for trading purposes are carried at fair value. All other LGC entitlements under PPAs are held in the compliance portfolio and carried at cost or net realisable value.

Price and volume risk is managed under the Energy Commodity Risk Management Policy and Manual referred to above.

Small-scale technology certificates (STC)

STC price risk is the risk of an adverse outcome resulting from a change in the current or forward price of STCs.

The Company holds STCs to meet its annual compliance obligations under the Renewable Energy (Electricity) Act 2000. All STCs are held in a trading portfolio and can be used for compliance or trading purposes. STCs held for compliance or for trading are carried at fair value. The STC compliance obligation liability is carried at fair value.

Price and volume risk is managed under the Energy Commodity Risk Management Policy and Manual referred to above.

Sensitivity Analysis

The following table details the Company's sensitivity to a 3% increase and a 20% decrease (2021: 3% increase and a 20% decrease) in price of STCs with all other variables held constant.

In thousands of dollars	2022	2021	2022	2021
STCs	**+ 3%***	+ 3%*	**- 20%**	- 20%
Profit / (loss) before tax	**7**	396	**(1,117)**	(2,679)
Equity	**7**	396	**(1,117)**	(2,679)

* The sensitivity increase of 3% (2021: 3%) for the upper limit aligns to the Government cap on STCs of $40 (2021: $40).

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. A Treasury Management Agreement is in place with the parent entity which enables the sharing of monies between EQL Group entities and access to a $700.000 million (2021: $700.000 million) Working Capital Facility held with QTC.

Note 11: Financial risk management (continued)

(d) Liquidity risk (continued)

The Queensland Treasury Corporation (QTC) is the approved Eligible Provider for the purposes of the Company's Australian Financial Services Licence and required to provide funding on written demand when requested by the Company pursuant to an approved Eligible Undertaking. The QTC has provided an eligible undertaking for $400.000 million (2021: $400.000 million).

Where the Company enters into contracts external to the regulated market, such contracts are transacted within the terms of the Energy Commodity Risk Management Policy and Manual which provides a framework for monitoring and limiting exposures.

Liquidity risk may increase in the event of unexpected high market volatility and may result in a large margin call being required for settlement.

The tables below disclose the Company's financial liabilities, including derivative financial instruments, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual, undiscounted cash flows. For options contracts, the undiscounted cash flow represents the future premium payable. The maturities of derivative financial instruments are calculated on the basis that derivatives will be settled on a gross basis.

In thousands of dollars	Less than 1 year	1 to 5 years	Total contractual cashflows	Carrying amount
At 30 June 2022				
Financial liabilities				
Electricity hedges	**15,488**	**16,448**	**31,936**	**23,731**
Trade and Other Payables	**555,902**	**-**	**555,902**	**555,902**
Customer security deposits	**11,194**	**-**	**11,194**	**11,194**
Total financial liabilities	**582,584**	**16,448**	**599,032**	**590,827**
At 30 June 2021				
Financial liabilities				
Electricity hedges	313	886	1,199	1,194
Trade and Other Payables	405,854	-	405,854	405,854
Customer security deposits	11,593	-	11,593	11,593
Total financial liabilities	417,760	886	418,646	418,641

(e) Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern. The capital structure of the Company consists of equity, comprising issued capital and retained earnings. The Company has access to same day funds through short term borrowings from the parent company via the Group's Treasury Management Agreement.

Note 11: Financial risk management (continued)

(e) Capital management (continued)

Pursuant to the Treasury Management Agreement, the parent company is responsible for providing central treasury management services for the EQL Group, including the administration of the debt and cash management facilities with the Queensland Treasury Corporation. This agreement enables the sharing of monies between EQL Group entities.

The parent entity has a working capital facility in place for $700.000 million (2021: $700.000 million) with QTC plus access to additional short and long term borrowings with QTC via the State Borrowing Program operated by the Queensland Government.

Operating cash flows are used to settle the routine outflows of operating expenditure and dividends. Funding via the Treasury Management Agreement is available from the parent entity to meet the Company's additional short-term cash management and working capital requirements.

Note 12: Fair values of financial assets and liabilities

The fair value of a financial asset or a financial liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

a) Fair value measurements

The Company requires disclosure of fair value measurements by level according to the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
(iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities measured and recognised at fair value.

In thousands of dollars	Level 1	Level 2	Level 3	Total
2022				
Assets				
Electricity hedges	**102,292**	**1,211,074**	**1,416**	**1,314,782**
Large-scale generation certificates held for trading	**-**	**5,761**	**-**	**5,761**
Small-scale technology certificates held for trading	**-**	**25,262**	**-**	**25,262**
	102,292	**1,242,097**	**1,416**	**1,345,805**
Liabilities				
Electricity hedges	**2,974**	**20,757**	**-**	**23,731**
	2,974	**20,757**	**-**	**23,731**
2021				
Assets				
Electricity hedges	17,443	97,359	-	114,802
Large-scale generation certificates held for trading	-	3,436	-	3,436
Small-scale technology certificates held for trading	-	32,212	-	32,212
	17,443	133,007	-	150,450
Liabilities				
Electricity hedges	511	683	-	1,194
	511	683	-	1,194

Note 12: Fair values of financial assets and liabilities (continued)

b) Reconciliation of Level 3 fair value measurements

The following table reconciles the movements of the Company's assets and liabilities in Level 3 of its fair value measurements hierarchy:

In thousands of dollars	Electricity hedges held for trading	Total
2022		
Assets		
Opening balance	-	-
Settlements	-	-
Unrealised gains/(losses) recognised in statement of profit or loss*	1,416	1,416
Closing balance	1,416	1,416
Liabilities		
Opening balance	-	-
Settlements	-	-
Unrealised gains/(losses) recognised in statement of profit or loss*	-	-
Closing balance	-	-

* this is recognised in the Fair Value Gains line in the statement of profit or loss

c) Transfers between level 2 and 3 and changes in valuation techniques

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. During FY2022 there were no transfers of electricity derivatives between Level 2 and Level 3 (2021: nil transfers).

d) Valuation policies and procedures

The Company has an established control framework with respect to the measurement of fair values. The Retail Commercial Services team has the overall responsibility for overseeing all financial asset and liability fair value measurements, including level 3 fair values, and reports directly to the Executive General Manager Retail. Contracts are valued using a combination of data sources including current trades executed by the Company, the Sydney Futures Exchange (SFE), ICAP Plc (ICAP), TFS Australia Pty Ltd (TFS) and other market intelligence. The Company trades frequently in these instruments and has sufficient market information to reliably measure the values of these contracts in accordance with the requirements of Australian Accounting Standards.

The Company has implemented a change to the approach used to profile the electricity forward curve across trading intervals to determine the fair value of Over-The-Counter swaps. Previously, the approach adopted relied on the historical electricity pool price profile to derive the trading interval electricity forward curve profile. This approach was replaced by a valuation methodology that combines the historical electricity pool price shape with an electricity pool price forecast to determine the characteristics and shape of the electricity forward curve. The new approach more appropriately recognises the recent wholesale electricity market conditions.

Note 12: Fair values of financial assets and liabilities (continued)

(i) Methods and assumptions used in determining fair value of financial assets and liabilities

The Company currently has four different classes of financial instruments that are measured at fair value these being: swaps, options, LGCs and STCs.

Type	Methods and assumptions
Swaps[1]	Over-The-Counter swaps are valued using broker quoted forward curves. A profiling methodology is applied to derive the Over-The-Counter trading interval level forward curve, using a combination of historical and forecast electricity pool prices. Where positions are held in periods beyond the curve, the curve is extended accordingly (refer note 12(d)ii). Exchange traded swaps are valued using the Exchange quoted prices.
Caps	$300 Exchange traded caps are valued using the Exchange quoted prices. Over-The-Counter $300 caps are valued using a mean reversion jump diffusion model incorporating historical pool price outcomes and broker provided cap curves. Where positions are held in periods beyond the curve, the curve is extended accordingly (refer note 12(d)ii).
Swaptions	Over-The-Counter swaptions are valued applying a Black Scholes 76 methodology incorporating broker quoted forward curves. Volatility is calculated based on market implied volatility. Exchange traded swaptions are valued applying the fair value on the exchange.
Large-scale generation certificates (LGCs)	LGC positions which are held for trading are valued using a curve derived from externally sourced broker quotes. Where positions are held in periods beyond the curve, the curve is extended accordingly.
Small-scale technology certificates (STCs)	STC positions which are held for trading are valued using a curve derived from externally sourced broker quotes. Where positions are held in periods beyond the curve, the curve is extended accordingly.

[1] A separate valuation approach for Fixed Multiplier Floating Rate Swaps has been adopted by the Company. These swaps involve the Company paying a price equal to the average of a financial year flat forward price during a future averaging period multiplied by a fixed rate multiplier (Fixed Multiplier). The separate valuation approach has been adopted as there is no observable market price to assess the fair value of the Fixed Multiplier component of these swap contracts. This valuation approach adjusts the day one electricity forward curve used for valuation purposes by a percent scaler to align the day one value to the market value. The future market value movement of the Fixed Multiplier against the adjusted electricity forward curve will be recognised as an unrealised gain or loss in the statement of profit and loss.

Note 12: Fair values of financial assets and liabilities (continued)

(ii) Fair value valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Electricity hedges	The curve is sourced through broker quoted forward curves. A profiling methodology is applied to derive the OTC trading interval level forward curve. A combination of the historical and forecast electricity pool price is used to determine the forward curve profile. The forward curve is extended for the periods beyond the observable quoted pricing period by using CPI escalation.	For Fixed Multiplier Floating Rate Swaps, as there is no observable market price for the multiplier component, the valuation methodology derives an estimate of the multiplier from the current forward curve to adjust fair value. CPI escalation of forward curves beyond observable quoted pricing period.	A change in OTC trading interval level price may lead to higher or lower fair value. The higher the CPI adjustment the higher the fair value of the instrument.

(iii) Master netting or similar agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Company does not have an enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

In thousands of dollars	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
2022			
Financial assets			
Electricity Hedges	**1,314,782**	**(23,731)**	**1,291,051**
Financial liabilities			
Electricity Hedges	**(23,731)**	**23,731**	**-**
2021			
Financial assets			
Electricity Hedges	114,879	(1,113)	113,766
Financial liabilities			
Electricity Hedges	(1,196)	1,113	(83)

Note 12: Fair values of financial assets and liabilities (continued)

Accounting policies

Financial instruments

Financial instruments held or issued for hedging franchise load are classified as derivative financial instruments and are recognised at fair value at the date that a derivative contract is entered into (trade date) and is subsequently measured at fair value at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount is reported as a liability. The resulting gain or loss is recognised in the statement of profit or loss immediately, with the exception of cash flow hedges designated for hedge accounting where unrealised gains and losses are deferred in the cash flow hedge reserve. Any ineffective portion of hedge accounted instruments is recognised directly in the statement of profit or loss. Refer to note 13 for further information on hedge accounting disclosures and accounting policies.

Critical accounting estimates and judgements

Electricity financial instruments measured at fair value.

The Company enters into electricity financial instruments and determines the fair value of these instruments, which includes swaps and options (including caps and swaptions) using market based valuation methods. It takes into account the conditions existing at balance date and has used its judgement in the following areas:

- future price and volume estimation using in-house and off-the-shelf valuation models;
- discounting to the present value for the time value of money; and
- option volatility.

Note 13: Hedge accounting

Cash flow hedges

Cash flow hedges are used by the Company to hedge the energy commodity risk arising through its retail operations.

The Company undertakes derivative transactions to hedge the price of electricity it purchases over a three-year period within a set of Gross Margin at Risk limits. The Company principally uses energy swaps, options (including caps and swaptions) to protect against price and volume fluctuations. Hedge accounting is employed only for swap contracts. These derivative instruments may meet the requirements for hedge accounting. The eligible hedge contracts are valued at fair value and the resultant gains or losses that effectively hedge the designated risk exposures are deferred to the cash flow hedge reserve. Any hedge ineffectiveness on designated contracts or fair value movements on hedge contracts not designated for hedge accounting are recognised in the statement of profit or loss. Changes in hedge effectiveness are predominantly driven by changes in energy load forecasts.

The inherent variability in the volume of electricity purchased by customers and dispatched from generators means that actual purchase requirements and sales volume can vary from the forecasts. The forecasts are updated for significant changes in underlying conditions and where this leads to a reduction in the forecast below the aggregate notional volume of hedge instruments in the relevant periods impacted, the affected hedging instruments are de-designated and the accumulated gain or loss which has been recognised in the hedge reserve is recognised directly in the statement of profit or loss as the underlying forecast purchase or sale transactions are no longer expected to occur.

During the year ended 30 June 2022, $32.500 million gains (2021: $5.500 million gains) were reclassified to the statement of profit or loss due to the hedges no longer being designated as hedging instruments and the underlying forecast transaction no longer being highly probable to occur as originally forecast.

Where an effective hedging instrument is closed out and the underlying forecast transaction remains highly probable to occur as originally forecasted, the hedge contract is de-designated and any accumulated gain or loss which has been recognised in the hedge reserve is deferred to the reserve. As at year ended 30 June 2022, $169.000 million gains (2021: $18.700 million losses) remain in cash flow hedge reserve due to de-designation and all underlying forecast transactions remain highly probable to occur.

Note 13: Hedge accounting (continued)

Gains and losses recognised in the hedge reserve in the statement of comprehensive income on electricity derivatives at the end of the reporting period will be released to the profit or loss in the period in which the underlying purchase or sale transactions are recognised.

(i) *Nominal amount of electricity hedges outstanding*

As at 30 June 2022, the average notional amount of electricity hedges outstanding over the next 3 years from FY 2023 to FY 2025 is approximately 4 TWh (Terawatt hours) at an average strike rate of $133 per MWh (2021: average notional amount outstanding over 3 years from FY 2022 to FY 2024 of 2 TWh at an average strike rate of $51 per MWh).

(ii) *Fair value of financial instruments designated as hedging instruments*

The following table sets out the fair value of electricity hedges which meet the criteria for hedge accounting. The accounting policies applied to the valuation of electricity derivatives is outlined below:

In thousands of dollars	Note	2022	2021
Financial Assets: Cash flow hedges - electricity derivatives	7	**1,076,468**	82,188
Financial Liabilities: Cash flow hedges – electricity derivatives	10	**(23,466)**	(624)

(iii) *The impact of hedging instruments designated in hedge relationships is as follows:*

In thousands of dollars	2022	2021
Statement of profit or loss:		
Gains/(losses) on unwinding of inception value of designated hedges	**(163,488)**	7,846
Cash flow hedge ineffectiveness gains/(losses) recognised in Fair value gains	**394,864**	(15,462)
Statement of comprehensive income:		
Cash flow hedge reserve (CFHR)		
Opening balance	**60,906**	(192,831)
The effective portion recognised in CFHR (pre-tax)	**1,713,613**	277,307
Reclassification from CFHR to Fair value gains	**(32,535)**	(5,502)
Transfer from CFHR to electricity purchases	**(474,989)**	(18,068)
Closing balance (pre-tax)	**1,266,995**	60,906

(iv) *The table below outlines the impact of applying hedge accounting for the electricity hedges:*

In thousands of dollars	2022	2021
Electricity Price Risk:		
Changes in value of hedge instrument	**1,713,613**	277,307
Changes in value of hedge item	**1,318,748**	261,845
Cash flow hedge reserve	**1,266,995**	60,906

Note 13: Hedge accounting (continued)

Accounting policies

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date they are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as hedges of a particular cash flow risk associated with a recognised asset, liability or highly probable forecast transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 12. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income. The fair values of hedging derivatives are classified as current or non-current based on timing except for exchange traded derivatives which are classified as current.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in equity are transferred to the statement of profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the eligibility criteria for hedge accounting, hedge accounting is discontinued and any changes in the instrument's fair value which have been deferred to the cash flow hedge reserve (CFHR) is immediately transferred to the statement of profit or loss if the underlying forecast transaction is not expected to occur. In the event that a hedging position is closed out or sold and the underlying forecast transaction is still expected to occur, any fair value movement deferred to the CFHR will remain in the reserve and will be transferred to the statement of profit and loss when the forecast transaction ultimately occurs.

An ineligible hedge may arise where the derivative financial instrument is hedging more than the forecast load. As such there is no relationship between the hedging instrument and the hedged item for hedge accounting purposes. In this instance, the fair value movement in the derivative instrument relating to the excess portion of forecast load is recognised in profit and loss. If the forecast for load subsequently increases such that the derivative instrument becomes hedged against the forecast load, then the instrument will be designated as an eligible hedge for hedge accounting purposes from that point and any subsequent movement in the fair value will be recognised in the CFHR. Any fair value movement that has been recognised in the statement of profit or loss up to the date of designation (referred to as the inception value) remains in the profit and loss.

Certain derivative financial instruments do not qualify for hedge accounting, despite being valid economic hedges of the relevant risk. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit or loss.

Refer to note 12 for additional information in relation to accounting policies for financial instruments.

SECTION 4: Operating Assets and Liabilities

Other Operating Assets

Note 14: Other assets

In thousands of dollars	2022	2021
Current		
Energy certificates – at cost	**18,900**	13,971
Energy certificates – at fair value	**25,630**	29,425
Total current other assets	**44,530**	43,396

Accounting policies

Energy certificates

Renewable energy certificates are classified into two certificate types, LGCs and STCs.

LGCs held for trading purposes are measured at fair value at the end of the financial year, adjusted for known market variables with changes in fair value recognised in the statement of profit or loss. LGCs are valued using a combination of data sources including trades executed by the Company, ICAP, TFS and other market intelligence. The Company has sufficient market information to reliably measure the value of these certificates in accordance with the requirements of Australian Accounting Standards.

LGCs used solely to satisfy retail sales commitments and surrender obligations are measured at lower of cost or realisable value.

STCs are measured at fair value at the end of the financial year, with changes in fair value recognised in the statement of profit or loss. STCs are valued at the market price on the measurement date.

Critical accounting estimates and assumptions

Energy certificates

Like financial instruments measured at fair value, energy certificates held for trading are measured at fair value. The Company determines the fair value of these certificates using market based valuation methods as outlined in note 12. The Company takes into account the conditions existing at balance date and uses its judgement in determining the fair value.

Note 15: Intangible assets

In thousands of dollars	2022	2021
Software - at cost	**55,000**	40,955
Less: accumulated amortisation and impairment	**(34,210)**	(25,024)
	20,790	15,931
Other Intangibles - at cost	**21,482**	21,482
Less: accumulated amortisation and impairment	**(21,482)**	(21,482)
	-	-
Work in progress – at cost	**440**	9,376
Total intangible assets	**21,230**	25,307

Reconciliations of the carrying amounts for each class of intangible assets are set out below:

Year ended 30 June 2022	**Software $000**	**Other Intangibles $000**	**Work in progress $000**	**Totals $000**
Gross carrying amount at start of financial year	40,955	21,482	9,376	**71,813**
Accumulated amortisation at start of financial year	(25,024)	(21,482)	-	**(46,506)**
Carrying amount at start of financial year	**15,931**	**-**	**9,376**	**25,307**
Additions	-	-	5,109	**5,109**
Transfer from work in progress	14,045	-	(14,045)	**-**
Amortisation expense	(9,186)	-	-	**(9,186)**
Carrying amount at end of financial year	**20,790**	**-**	**440**	**21,230**

Year ended 30 June 2021	**Software $000**	**Other Intangibles $000**	**Work in progress $000**	**Totals $000**
Gross carrying amount at start of financial year	38,584	21,482	14,309	**74,375**
Accumulated amortisation at start of financial year	(17,068)	(17,787)	-	**(34,855)**
Carrying amount at start of financial year	**21,516**	**3,695**	**14,309**	**39,520**
Additions	-	-	785	**785**
Transfer from work in progress	2,371	-	(2,371)	**-**
Transfers to property, plant and equipment	-	-	(3,347)	**(3,347)**
Amortisation expense	(7,956)	(3,695)	-	**(11,651)**
Carrying amount at end of financial year	**15,931**	**-**	**9,376**	**25,307**

Accounting policies

Intangible assets

Internally generated assets including software, expenditure on research and development

Internally generated intangible assets are measured at historical cost less accumulated amortisation and accumulated impairment losses.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge or understanding, is recognised in the statement of profit or loss when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of a new or substantially improved product and process, is capitalised if the product or process is technically and commercially feasible, the Company has sufficient resources to complete development and it can measure reliably the expenditure attributable to the intangible asset during its development.

Note 15: Intangible assets (continued)

Accounting policies (continued)

Software as a Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. As such the Company does not receive a software intangible asset at the contract commencement date. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets as outlined above in the intangible assets accounting policy note. Licenced software and any configuration and customisation costs of that software, which is placed into a private cloud hosted environment and is controlled by the Company is also recognised as an intangible asset with ongoing support agreements recognised as operating expenses when the services are received.

Amortisation

The cost of an intangible asset is amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful lives vary from 3 to 5 years (2021: 3 to 5 years).

Impairment of assets

All assets which are depreciated or amortised are reviewed for events or changes in circumstances that may indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

No impairment losses were recognised during the financial year.

Notes to the financial statements

For the year ended 30 June 2022

Note 16: Net deferred tax equivalent assets/(liabilities)

In thousands of dollars	2022	2021
Deferred tax equivalent assets:		
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of profit or loss:		
Provisions/accruals	**25,336**	24,703
Derivatives	**1,588**	(6,481)
Other	**9**	18
	26,933	18,240
Amounts recognised directly in equity:		
Hedge accounting of derivatives	**5,452**	6,840
	5,452	6,840
Deferred tax equivalent assets	**32,385**	25,080
Deferred tax equivalent liabilities:		
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of profit or loss:		
Property, plant and equipment	**(864)**	(938)
Derivatives	**(16,595)**	3,363
Other	**25,868**	6,048
	8,409	8,473
Amounts recognised directly in equity:		
Hedge accounting of derivatives	**385,551**	25,112
	385,551	25,112
Deferred tax equivalent liabilities	**393,960**	33,585
Net deferred tax equivalent asset/(liability):		
Deferred tax equivalent assets	**32,385**	25,080
Deferred tax equivalent liabilities	**(393,960)**	(33,585)
Net deferred tax equivalent asset/(liability)	**(361,575)**	(8,505)

Note 16: Net deferred tax equivalent assets/(liabilities) (continued)

Accounting policies

Income tax

(i) *Tax equivalents*

The Company is part of a tax consolidated group that is subject to the National Tax Equivalents Regime (NTER). The NTER broadly utilises the provisions of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* and associated legislation, the NTER Manual as well as Rulings and other pronouncements by the Australian Tax Office (ATO), in order to determine the tax payable by the head entity of the tax consolidated group.

(ii) *Current tax equivalents payable/receivable*

Consistent with the requirements of Australian Accounting Standards Board (AASB) Interpretation 1052 *Disaggregated Disclosures*, as the Company is a member of a tax consolidated group, the current tax equivalents payable/(receivable) is recognised in the accounts of the head entity, Energy Queensland Limited. The balance assumed by the head entity is recognised as an amount payable/(receivable) to the Company in conjunction with the tax funding arrangement (refer below).

Notional current tax equivalents payable is recognised as current tax expense.

(iii) *Deferred tax equivalent assets and liabilities*

Deferred tax equivalent assets (DTAs) and liabilities (DTLs) are deductible or taxable temporary differences and unused tax losses and tax credits recognised using tax rates enacted or substantively enacted as at the reporting date. Temporary differences are differences between the carrying amount of an asset and liability for financial reporting purposes and their tax bases. Tax bases are determined based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

DTAs are recognised only to the extent that it is probable that future taxable amounts will be available against which the asset can be utilised.

Movements in DTA and DTL balances are recognised as deferred tax equivalent expenses, except to the extent they relate to:

- Items recognised directly in equity, in which case that portion is recognised in equity; and
- DTAs and DTLs are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority.

(iv) *Income tax equivalent expense*

Income tax equivalent expense for the reporting period consists of current tax expense and deferred tax expense.

(v) *Tax consolidation*

The Company is a wholly-owned subsidiary within a tax consolidated group with Energy Queensland Limited, which is the head entity.

Current tax expense/benefit, DTAs and DTLs arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial accounts of the members of the tax consolidated group using the group allocation approach based on the allocation specified in the tax funding agreement.

The tax funding agreement requires a notional current and deferred tax equivalents calculation for each entity as if it were a taxpayer in its own right, except that distributions made and received arising within the tax consolidated group are treated as having no tax consequences.

The head entity recognises DTAs arising from unused tax losses and tax credits of the members of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised. The recognised tax losses are available indefinitely for offsetting against the future taxable profits subject to the satisfaction of certain loss recoupment rules.

(vi) *Nature of tax funding arrangement and tax sharing agreements*

All members of the tax consolidated group have entered into a tax funding arrangement which sets out the tax funding obligations for each member. The tax funding arrangements require payments to/from the head entity equal to the notional current tax equivalents liability/(asset) assumed by the head entity and any notional tax loss or tax credit deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable/(receivable) equal in amount to the notional tax equivalents liability/(asset) assumed.

Contributions to fund the notional current tax equivalents liabilities are payable as per the tax funding arrangement.

Note 16: Net deferred tax equivalent assets/(liabilities) (continued)

All members of the tax consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax equivalents liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

(vii) *Goods and services tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position for the Company.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows, arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Other Operating Liabilities

Note 17: Other liabilities

In thousands of dollars	2022	2021
Current		
Environmental certificate acquittal	**55,011**	46,208
Total current other liabilities	**55,011**	46,208

Accounting policies

Environmental certificate acquittal

The Company is subject to legislation requiring the surrender of energy certificates to the relevant Government body as outlined below. These are recognised as an Other liability and valued at amortised cost.

Large-scale generation certificates

Certificates created by the *Renewable Energy (Electricity) Act 2000* which must be surrendered each year to the Clean Energy Regulator (CER). Each year, the Company must surrender a certain number of LGCs to the CER dependent on the amount of electricity it sells.

Small-scale technology certificates

Certificates established under the *Small-scale Renewable Energy Scheme* (SRES) which creates a financial incentive for owners to install eligible systems which are entitled to a certain number of STCs based on the amount of renewable electricity the system produces or displaces. STCs can be exchanged on the open STC Market or through the STC Clearing House. The SRES places a legal liability on electricity retailers to purchase a certain amount of STCs each year. STCs must be surrendered on a quarterly basis.

SECTION 5: Capital Structure

Note 18: Share capital

100 fully paid ordinary shares totalling $100 (2021: $100) carry one vote per share and carry the rights to dividends. The shares have no par value. There were no changes in share capital during the year.

Accounting policies

Share capital

Ordinary shares are classified as equity.

SECTION 6: Other Notes

Note 19: Contingent assets and liabilities

(a) Guarantees issued

In order to participate in the electricity market, the Company is required to deliver acceptable security as collateral to the Australian Energy Market Operator for their obligations to counterparties in the Electricity Market arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $300.000 million (2021: $160.000 million) has been issued by QTC to AEMO. EQL provides QTC with a Counter Indemnity up to the value of $150.000 million (2021: $150.000 million) in respect of this guarantee.

In order to participate in the Electricity Market, EEQ is required to hold an Australian Financial Services Licence for which QTC provides the required Eligible Undertaking to the value of $400.000 million (2021: $400.000 million). EQL provides QTC with a Counter Indemnity up to the value of $400.000 million (2021: $400.000 million) in respect of the eligible undertaking.

(b) Guarantees held

The Company holds bank guarantees from customers totalling $3.681 million (2021: $1.270 million) as security to cover their obligations arising from purchase of electricity. There is $3.000 million in guarantees held with trading counterparties (2021: $3.500 million).

Accounting policies

Contingent assets and liabilities

Except for contingent liabilities required on an acquisition of a business, contingent assets and liabilities are not recognised in the financial statements. They are however, disclosed in the notes to the financial statements, where appropriate.

Note 20: Key management personnel disclosures

(a) Names, positions and terms held of Directors

Directors of the Company as at 30 June 2022:		Appointment start date	Appointment expiry date
Rod Duke	Executive Director	1 April 2020	Ongoing
Peter Scott	Chairman and Executive Director	3 October 2017	Ongoing
Belinda Watton	Executive Director	26 June 2018	26 November 2021
Jane Nant	Executive Director	26 June 2018	Ongoing
Michael Dart	Executive Director	26 November 2021	Ongoing

(b) Compensation - Directors

Directors' remuneration is set by State Government regulation, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of the Company.

There are no non-executive Directors of the Company. As the executive Directors are all Officers of the Company's parent entity, Energy Queensland Limited, they were not remunerated by the Company for their role as Directors.

(c) Compensation – Executives

The key management personnel of the Company are employed in the parent entity and no extra compensation is received.

(d) Transactions with related parties of key management personnel

Key management personnel of the Company and its related parties, or their related parties, conduct transactions with the Company on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

Notes to the financial statements

For the year ended 30 June 2022

Note 21: Related party transactions

(a) Transactions with the parent entity and wholly owned group

The parent entity provided business management, financial and corporate services and customer care administration services (including retail products and services administration) to the Company. The total cost of these services during the year was $64,235,652 (2021: $70,611,377). All services were undertaken on normal commercial terms and conditions.

Transactions with and amounts due and receivable from related parties in the wholly owned group are as set out in the respective notes to the financial statements.

(b) Controlling entities

The Australian parent entity is Energy Queensland Limited, which is a Government Owned Corporation.

(c) Transactions with State of Queensland controlled entities

The Company transacts with other State of Queensland controlled entities. All transactions are negotiated on terms equivalent to those that prevail in arm's length transactions.

The value of these related party transactions and balances, as reported in the statement of financial position and statement of profit or loss, are disclosed below:

In dollars	2022	2021
Revenue		
Pensioner rebate and grant revenue from Department of Communities, Disability Services and Seniors	**62,775,046**	90,280,407
Revenue from State of Queensland controlled entities	**109,825,539**	78,882,657
Electricity trading with State of Queensland controlled entities	**651,205,385**	36,291,169
Expenses		
Community service obligations offset received from Department of Energy and Public Works	**(494,444,769)**	(443,471,798)
QTC fees for guarantees	**198,000**	120,411
Environmental certificate transactions with State of Queensland controlled entity counterparties	**1,882,000**	7,880,900
Assets / (Liabilities)		
Trade receivables with State of Queensland controlled entities	**556,151**	1,595,414
Electricity trading with State of Queensland controlled entities	**176,730,238**	94,732,446

No security has been obtained or provided for the above assets and liabilities. Settlement is in Australian dollars.

Note 22: Auditor's remuneration

In dollars	2022	2021
Remuneration for audit of the financial reports of the Company:		
Auditor-General of Queensland		
Audit services		
Audit of the financial report	**372,260**	304,600
	372,260	304,600

Note 23: Events after reporting date

No events of a material nature have occurred since the end of the financial year that significantly affected or may significantly affect the operations of the Company.

Directors' declaration

Directors declaration

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 6 to 41
   - (i) Comply with Australian Accounting Standards and Interpretations;
   - (ii) Are in accordance with the *Corporations Act 2001*; and
   - (iii) Give a true and fair view of the financial position of the Company as at 30 June 2022 and of its performance for the year ended on that date.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2022.

Made in accordance with a resolution by the Directors.

P Scott

Chairman

Brisbane

16 August 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Ergon Energy Queensland Pty Ltd

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Ergon Energy Queensland Pty Ltd.
In my opinion, the financial report:

a) gives a true and fair view of the company's financial position as at 30 June 2022, and its financial performance and cash flows for the year then ended

b) complies with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2022, the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*. I am also independent of the entity in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Measurement of derivative financial instruments and designation of hedging instruments (Note 7, 10, 12 and 13)

Key audit matter	How my audit procedures addressed this key audit matter
The fair value measurement of Ergon Energy Queensland Pty Ltd's (EEQ) derivative financial instruments is inherently complex. Key factors contributing to this complexity include the use of internal financial models and judgement to estimate key inputs due to the absence of observable market data for some assumptions.	I engaged an auditor's expert to assist me in: • Obtaining an understanding of the valuation techniques and financial models used, and assessing their design, integrity and appropriateness with reference to common industry practices and requirements of accounting standards • Challenging management assumptions used in the valuation process and assessing the reasonableness of inputs and valuation techniques based on an assessment using knowledge and experience, and an understanding of industry specific factors • For a sample of derivative instruments, testing the reasonableness of the valuation calculations by agreeing key terms to supporting documents and counterparty confirmations and, and recalculating the fair values based on an understanding of generally accepted valuation practices. In assessing the work of the auditor's expert, I: • Evaluated the qualifications, competence, capabilities, and objectivity of the auditor's expert. • Assessed the nature, scope and objectives of the work completed by the auditor's expert • Evaluated the findings and conclusions for relevance, reasonableness and consistency with other audit evidence obtained.

Key audit matter	How my audit procedures addressed this key audit matter
EEQ's application of hedge accounting is complex due to: • the specific requirements of AASB 9 *Financial Instruments* for an effective hedge relationship and deferral of fair value gains and losses to the cash flow hedge reserve; • judgements required in assessing EEQ's forecast load to support hedge relationships; and • use of an internally developed system to administer and account for hedge relationships.	With the assistance of a specialist, my procedures included, but were not limited to: • assessing the Company's hedge accounting process including exercise of management judgement in complying with the specific requirements of AASB 9 and testing the qualifying criteria for an effective hedge relationship and methodology to calculate hedge effectiveness • evaluating the scope, competency and objectivity of the Company's external experts involved in the design, implementation and operation of the hedge accounting system and by examining the work performed, their professional qualifications and experience • for cash flow hedges, assessing the reasonableness of forecast information used to support the highly probable criterion required for an effective hedge relationship • testing the reconciliation of the cash flow hedge reserve, and presentation of gains and losses in the income statement • validating the appropriateness of disclosures in the financial statements. In reviewing the specialist's work, I: • Evaluated the qualifications, competence, capabilities and objectivity of the auditor's expert. • Assessed the nature, scope and objectives of the work completed for appropriateness • Evaluated the findings and conclusions for relevance, reasonableness and consistency with other audit evidence obtained.

Measurement of unbilled revenue ($73.8 m and forms part of $788.9m) (Note 6)

Key audit matter	How my audit procedures addressed this key audit matter
The complex unbilled revenue and accrual for network charges calculation involved significant judgements for estimating the unread meter usage at balance date. In making this estimate, EEQ based the calculation on a model that used historical billing data and purchase load to create a seasonally adjusted periodical profile.	I have: • Obtained an understanding of the modelling approach and assessed the appropriateness of its design. • Tested general information technology controls and application controls over relevant information technology systems. • Validated the inputs used, including historical consumption and retail billing data, purchase load and tariff rates, to relevant source data. • Verified the mathematical accuracy of key sections of the unbilled revenue model. • Developed an estimate of the unbilled sales revenue at year-end and compared our estimate to EEQ management's estimated amount. • Validated the appropriateness of disclosures in the financial statements.

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Other information

Other information comprises financial and non-financial information (other than the audited financial report). At the date of this auditor's report, the available other information in the Ergon Energy Queensland Limited's financial statements for the year ended 30 June 2022 was the directors' report.

Those charged with governance are responsible for the other information.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Responsibilities of the directors for the financial report

The company's directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards, and for such internal control as the company's directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The company's directors are also responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the company.
- Conclude on the appropriateness of the company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

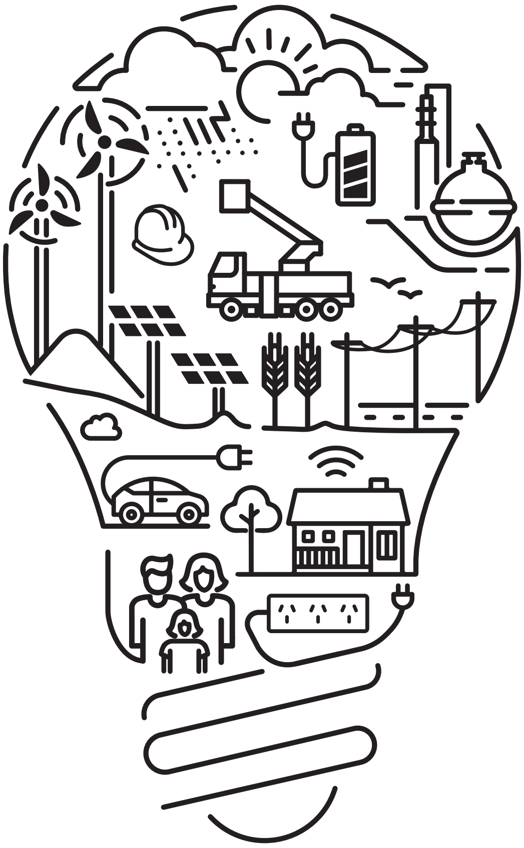
From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

IAsim

17 August 2022

Irshaad Asim
as delegate of the Auditor-General

Queensland Audit Office
Brisbane



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