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To the Acting Chair of the Board of Directors State Owned Generators Leasing Company Pty Ltd

Opinion

I have audited the financial report of the State Owned Generators Leasing Company Pty Ltd (the company) for the financial year ended 30 June 2023.

In my opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the company's financial position as at 30 June 2023 and its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2023
- a Statement of Financial Position as at 30 June 2023
- a Statement of Changes in Equity for the year ended 30 June 2023
- a Statement of Cash Flows for the year ended 30 June 2023
- notes, comprising material accounting policy information and other explanatory information
- a Directors' Declaration from the Acting Chair.

Basis for opinion

I conducted the audit in accordance with 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 auditor independence requirements of the *Corporations Act 2001*. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General.

I 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. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

I have audited the financial report of the State Owned Generators Leasing Company Pty Ltd for the financial year ended 30 June 2023.

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 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 the 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 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

- 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 the purpose of 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 directors
- 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. My conclusion is based 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.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the directors about, 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 the audit.



Daniel O'Donohue
Acting Deputy Auditor-General

01 December 2023

State Owned Generators Leasing Company Pty Ltd
Statement of Comprehensive Income
For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Revenue	5	9,277	7,436
Total revenue		<u>9,277</u>	<u>7,436</u>
Expenses			
Depreciation	10	(5,953)	(6,345)
Site remediation	12	41	(445)
Generator connection and operation charges		-	(312)
Other expenses	6	(271)	(324)
Loss on revaluation	10	-	(62,228)
Total expenses		<u>(6,183)</u>	<u>(69,654)</u>
Profit/(loss) before tax		<u>3,094</u>	<u>(62,218)</u>
Income tax equivalent expense with SA Government	7	(928)	-
Profit/(loss) for the period		<u>2,166</u>	<u>(62,218)</u>
Other comprehensive income		-	-
Total comprehensive result for the period		<u>2,166</u>	<u>(62,218)</u>

The accompanying notes form part of these financial statements. The operating profit/(loss) and total comprehensive result are attributable to the Treasurer as owner.

State Owned Generators Leasing Company Pty Ltd
Statement of Financial Position
As at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Current Assets			
Cash and cash equivalents	8	14,315	8,833
Receivables	9	237	35
Total current assets		14,552	8,868
Non-current Assets			
Receivables	9	2,678	1,018
Plant and equipment	10	135,926	142,282
Total Non-current assets		138,604	143,300
Total Assets		153,156	152,168
Current Liabilities			
Payables and other liabilities	11	1,236	1,004
Remediation provision	12	-	1,410
Total liabilities		1,236	2,414
Net Assets		151,920	149,754
Equity			
Issued share capital	13	226,200	226,200
Accumulated losses		(74,280)	(76,446)
Total equity		151,920	149,754

The accompanying notes form part of these financial statements. Total equity is attributable to the Treasurer as owner.

State Owned Generators Leasing Company Pty Ltd
Statement of Changes in Equity
For the year ended 30 June 2023

	Issued Share Capital	Accumulated losses	Total Equity
	\$'000	\$'000	\$'000
Balance at 1 July 2021	226,200	(14,228)	211,972
Loss for the period 2021-22	-	(62,218)	(62,218)
Total comprehensive result for 2021-22	-	(62,218)	(62,218)
Balance as at 30 June 2022	226,200	(76,446)	149,754
Profit for the period 2022-23	-	2,166	2,166
Total comprehensive result for 2022-23	-	2,166	2,166
Balance as at 30 June 2023	226,200	(74,280)	151,920

The accompanying notes form part of these financial statements. Total equity is attributable to the Treasurer as owner.

State Owned Generators Leasing Company Pty Ltd
Statement of Cash Flows
For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Lease rent receipts		7,321	6,130
Interest received		332	20
Other receipts		-	745
GST paid to ATO		(526)	(528)
Payments to suppliers		(2,048)	(1,694)
Net Cashflow from operating activities	14	<u>5,079</u>	<u>4,673</u>
Cash flow from investing activities			
Proceeds on sale of Plant and Equipment		403	-
Net Cashflow from investing activities		<u>403</u>	<u>-</u>
Net increase in cash and cash equivalents		5,482	4,673
Cash and cash equivalents at beginning of the year		8,833	4,160
Cash and cash equivalents at end of the year	8	<u>14,315</u>	<u>8,833</u>

The above statement should be read in conjunction with the accompanying notes to the financial statements.

State Owned Generators Leasing Company Pty Ltd
Notes to the Financial Statements
For the year ended 30 June 2023

1 Objectives

State Owned Generators Leasing Company Pty Ltd (SOGLC) was incorporated on 30 January 2020 under the *Corporations Act 2001 (Cth)*. SOGLC's registered address is Level 5, State Administration Centre, 200 Victoria Square, Adelaide, South Australia 5000.

As per its constitution, the objectives of SOGLC are:

- a) To be the lessor under a lease granted in respect of the generators by a lease agreement.
- b) To be a party to an instrument related to a lease referred to in paragraph (a) above or related to the subject matter of such a lease.
- c) To be the operator of the generators on expiration or sooner termination of such a lease.
- d) To hold the generators as owner or lessor for the purposes of a function referred to above.
- e) To carry out other functions conferred on the company by the Treasurer.
- f) To do anything necessary or expedient to be done for the purposes of a function referred to above.
- g) To do anything necessary or expedient to be done to ensure that the generators are appropriately operated and maintained and are available for use in the National Electricity Market.

2 Significant accounting policies

(a) Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- a. Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*;
- b. Relevant Australian Accounting Standards; and
- c. *Corporations Act 2001 (Cth)*

SOGLC is a for-profit entity for the purpose of preparing the financial statements.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

The financial statements have been prepared on a historical cost basis unless a different measurement basis is specifically disclosed in the note associated with the item measured.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the owner of the entity.

(d) Property, Plant and Equipment

Initial recognition

SOGLC acquired nine generator sets and ancillary equipment from the Department for Energy and Mining (DEM) for consideration of \$217,200,000. This acquisition was treated as a capital purchase of Property, Plant and Equipment (PP&E) and recorded at the DEM carrying amount.

These assets were initially recorded at cost plus any incidental costs involved with the acquisition.

Measurement after recognition

PP&E is subsequently measured at fair value.

The fair value of PP&E is determined using the most appropriate valuation technique in the circumstances and for which sufficient data is available to measure fair value.

A change in valuation technique is appropriate if the change results in a measurement that is more representative of fair value in the circumstances. Such changes are considered to be a change in accounting estimate.

Revaluations are to be undertaken, as a minimum, every six years. If at any time management considers that the carrying amount of the asset materially differs from its fair value, then the asset will be revalued, regardless of when the last valuation took place.

Depreciated replacement cost has been applied for those assets leased to Iberdrola Australia and Nexif Energy under long term lease agreements.

An independent valuation of PP&E owned by the Company was performed at 30 June 2022 by GHD Pty Ltd, an independent engineering and consulting firm based in Adelaide, with experience in providing asset valuations in the power, oil and gas industry. The revaluation resulted in a decrement of \$62,228,130. This was recognised as a loss on revaluation in the Statement of Comprehensive Income in 2021-22.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the asset.

Depreciation

Following the independent valuation, the assets are depreciated based on the life of the leases, which reflects the remaining economic useful life of the assets.

(e) Leases

SOGLC retains a substantial amount of the risk and rewards incidental to ownership of the leased assets. Accordingly, the Iberdrola Australia and Nexif Energy leases have been classified and recorded as an operating lease.

Lease income is recognised on a straight-line basis over the period of the lease.

(f) Taxation

SOGLC is not subject to income tax in accordance with section 24AM of the *Income Tax Assessment Act 1936 (Cth)*.

In accordance with Treasurer's Instruction 22 Tax Equivalent Payments, SOGLC is required to pay the Treasurer an income tax equivalent amount. The income tax liability is based on the Taxation Equivalent Regime (TER) which applies the accounting profits method. This requires SOGLC to apply the corporate income tax rate to the net profit. The current income tax equivalent liability relates to the income tax expense outstanding for the current period. Under the TER, no deferred tax asset is applicable when losses have been incurred.

Income, expenses, assets and liabilities are recognised net of the amount of GST except:

- a. When the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or part of the expense item applicable; and
- b. Receivables and payables, which are stated with the amount of GST included.

(g) Revenue

The main income source is the rent of leased generators to the lessees.

Refer to Note 2(e) - Leases for further information regarding the recognition of the income.

(h) Receivables

Current - are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 to 90 days and are therefore all classified as current.

Non-current - as lease income is recognised on a straight-line basis over the period of the lease (reflecting the pattern in which the benefit from the use of the generators is diminished), where the pattern doesn't match the amount invoiced, a non-current receivable is recognised for the difference.

Receivables are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

(i) Payables and other liabilities

These amounts represent liabilities for goods and services provided by the suppliers prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of receiving the invoice. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

3 Critical estimates and judgements

Property, Plant and Equipment

During 2021-22 an external revaluation of the generator sets and associated plant and equipment was undertaken.

Refer to Note 2(d) for further information.

4 Leases

SOGLC has the following operating lease arrangements:

Asset	Lessee	Term	Expiry
4 generators and associated assets	Iberdrola Australia	25 years	30 October 2045
5 generators and associated assets	Nexif Energy	25 years	20 September 2046

On 26 August 2019, the Government of South Australia approved the 25 year lease of certain electricity generating sets (Generators) located at Lonsdale and Elizabeth to Iberdrola Australia (formerly Infigen Energy) and Nexif Energy, with the Treasurer executing Agreements to Lease contracts with the two companies on 28 August 2019.

In order to facilitate the lease agreements, ownership of the Generators was transferred from the Minister for Energy and Mining (Minister) to the Treasurer and then from the Treasurer to SOGLC on 30 June 2020. The Generators were transferred from the Minister to the Treasurer and then from the Treasurer to SOGLC via proclamation under section 7(1)b of the *Administrative Arrangements Act 1994* with an effective date of 30 June 2020.

The Lease Agreement with Iberdrola Australia was executed on 1 November 2020 for a 25 year term. Iberdrola Australia subsequently relocated the Generators to a site at Bolivar.

The Lease Agreement with Nexif Energy was executed on 21 September 2021 for a 25 year term. Nexif Energy subsequently relocated the Generators to a site at Snapper Point.

The main source of income for SOGLC is derived from the rent income by leasing out the Generators to Iberdrola Australia and Nexif Energy. Lease rental income is recognised on a straight-line bases over the period of the lease. Lease rentals are adjusted by CPI periodically in accordance with the terms and conditions of the respective leases.

The annual lease rental income for 2022-23 was \$8,905,066.

The maturity analysis of the lease rent receipts is as follows:

Lease	Year 1	Years 2-5	Years > 5
Total	7,859	37,041	249,007

Both Lease Agreements contain mitigation of risk provisions for SOGLC, in the event of default by the lessee. These include, but not limited to:

- a. Finance compensation,
- b. The right to take possession of all plant and equipment, including modifications made.

In addition, on finalisation of the lease, where the lessee does not seek an agreed extension, to take possession of all plant and equipment, including modifications made.

5 Revenue	2023	2022
	\$'000	\$'000
Lease rent income	8,905	7,101
Interest income	372	27
Other revenue	-	308
Total revenue	9,277	7,436
6 Other expenses	2023	2022
	\$'000	\$'000
Management and advisory fees	180	180
Insurance	51	47
Audit fees	25	13
Legal Fees	15	35
Consultants	-	39
Other	-	10
Total other expenses	271	324
7 Income tax equivalent expense	2023	2022
	\$'000	\$'000
The prima facie income tax equivalent expense on pre-tax accounting profit reconciles to the income tax equivalent expense in the financial statements as follows;		
Profit/(loss) before income tax	3,094	(62,218)
Prima facie income tax equivalent expense/(credit) at 30%	928	(18,665)
Tax effect of non-deductible losses	-	18,665
Income tax equivalent expense with SA Government	(928)	-
8 Cash and cash equivalents	2023	2022
	\$'000	\$'000
Current Assets		
Cash at bank	14,315	8,833
Total current assets	14,315	8,833
9 Receivables	2023	2022
	\$'000	\$'000
Current assets		
Lease receivables	163	17
Other	74	18
Total current receivables	237	35
Non-current assets		
Lease receivables	2,678	1,018
Total non-current receivables	2,678	1,018

10 Property, plant and equipment	2023	2022
	\$'000	\$'000
Property, plant and equipment at fair value	141,879	142,282
Accumulated depreciation	(5,953)	-
Total property, plant and equipment	135,926	142,282

Reconciliation	2023	2022
	\$'000	\$'000
Carrying amount at the beginning of the period	142,282	210,855
Loss on revaluation	-	(62,228)
Depreciation expense	(5,953)	(6,345)
Disposals	(403)	-
Carrying amount at the end of the period	135,926	142,282

11 Payables and other liabilities	2023	2022
	\$'000	\$'000
Current Liabilities		
Income tax equivalent	928	-
Lease rental in advance	-	445
Other payables	308	559
Total payables and other liabilities	1,236	1,004

12 Remediation provision	2023	2022
	\$'000	\$'000
Opening balance at the beginning of the year	1,410	1,980
Increase/(decrease) in provision after remeasurement	(41)	445
Payments for remediation during the year	(1,369)	(1,015)
Closing balance at the end of the year	-	1,410

SOGLC was obligated to remediate the sites at which the generators were temporarily located. The remediation works were completed following relocation of the generators to their permanent sites. During the year remediation work was completed at the temporary Lonsdale site. Remediation work at the temporary Elizabeth site was completed in 2021-22.

13 Equity	Number of	Total
	shares	\$'000
30 June 2022		
Balance as at 30 June 2021	113,100,001	226,200
Balance as at 30 June 2022	113,100,001	226,200
Accumulated losses		(76,446)
Total equity		149,754
30 June 2023		
Balance as at 30 June 2022	113,100,001	226,200
Balance as at 30 June 2023	113,100,001	226,200
Accumulated losses		(74,280)
Total equity		151,920

The Treasurer is the sole shareholder of the Company.

14 Reconciliation of Profit/(Loss) with net cashflow from operating activities

	2023	2022
	\$'000	\$'000
Profit/(Loss) for the period	2,166	(62,218)
Non cash items		
Depreciation	5,953	6,345
Loss on revaluation	-	62,228
Movement in operating assets and liabilities		
Change in trade and other receivable	(1,862)	(1,037)
Change in trade and other payable	232	(75)
Change in remediation provision	(1,410)	(570)
Net cash inflows from operating activities	5,079	4,673

15 Related party transactions

The Company has one shareholder, the Treasurer of South Australia. The Government of South Australia is the ultimate controlling party.

Significant transactions with the South Australian Government are identifiable throughout this report. In addition, transactions with public authorities include audit fees paid/payable to the Auditor General (\$25,200), amounts received from DEM (\$403,000), amounts paid/payable to DEM (\$93,935) and amounts paid/payable to the South Australian Government Financing Authority (\$150,677).

(a) Key Management Personnel

Key management personnel of the Company include the Treasurer and the directors of the Company.

The following persons held authority and responsibility for planning, directing and controlling the activities of SOGLC directly or indirectly during the financial year:

Ms J Burgess	Chair
Mr T Burfield	Non-Executive Director
Dr P Heithersay	Non-Executive Director

All directors of SOGLC are Government employees. In accordance with the Department of the Premier and Cabinet Circular PC016, government employees did not receive any remuneration for director duties during the financial year.

(b) Transactions of director and director-related entities

There were no transactions between the Company and director-related entities.

16 Contingent liability

(a) Under its lease agreement with Iberdrola Australia, SOGLC is required to fund certain essential upgrade works to the generators in the event that any modification, upgrades or additional equipment is required in order for the lessee to achieve unconditional registration of the generators under the National Electricity Rules, and/or for the lessee to obtain a generation licence from the Essential Services Commission of South Australia. The maximum amount SOGLC could be liable for is \$8,000,000. SOGLC will own any part installed on the generators by the lessee as part of an essential upgrade and those parts will become subject to the lease.

(b) Nexif Energy has entered into gas connection and electricity transmission connection agreements in relation to the operation of its Snapper Point power station. In circumstances where Nexif Energy defaults under the connection agreements and that default is not rectified within the appropriate cure periods, SOGLC has the option of either paying termination amounts under those agreements or taking a novation of those agreements from Nexif Energy.

17 Events subsequent to balance date

No event has arisen since 30 June 2023 that would be likely to materially affect the operations or the state of affairs of the Company.

State Owned Generators Leasing Company Pty Ltd Directors' Declaration on the Financial Statements

The Directors of the Company declare:

1. The financial statements and notes are in accordance with the *Corporations Act 2001 (Cth)* and:
 - a. comply with relevant Australian Accounting Standards; and
 - b. give a true and fair view of the Company's financial position as at 30 June 2023 and of its performance for the year ended on that date.
2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Tim Burfield
Acting Chair

Date:

27/11/2023