



# 2017-18

## Statement of Corporate Intent

## Our values



We put

# PEOPLE FIRST



We value our customers and give them

# OUR BEST



We have pride in ourselves and

# OUR WORK



We work better by working

# TOGETHER



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# Introduction



**Power and Water Corporation** is established under the *Power and Water Corporation Act 2002* and is a Northern Territory Government Owned Corporation under the *Government Owned Corporations Act 2001*.

The Board of Directors is responsible to the Shareholding Minister for the corporation's operational and financial performance and is required to provide a Statement of Corporate Intent (SCI) each financial year.

The SCI sets out the nature and scope of our business activities, our objectives and strategies, risk management, capital investment plans and performance targets over a four-year period commencing 1 July 2017.

In accordance with the *Government Owned Corporations Act 2001* (GOC Act), Power and Water's objectives are to:

- operate at least as efficiently as any comparable business
- maximise the sustainable return to the Northern Territory Government (NTG) on its investment in the corporation.

Power and Water is on the path of major change in line with our long term goal of becoming a best practice multi-utility which is commercially and customer focused contributing to the Northern Territory economy. This SCI outlines our strategies, initiatives and performance targets in line with these goals.

## Nature and scope of activities

Power and Water is responsible for providing electricity distribution, gas supply, water and sewerage services to customers across the Northern Territory, as well as electricity generation in five minor centres.

Power and Water's not-for-profit subsidiary Indigenous Essential Services Pty Ltd (IES Pty Ltd) provides power, water and sewerage services to 72 remote Indigenous communities and 66 outstations. Power and Water has approximately 85,000 electricity and water customers.

The corporation is structured along five lines of business supported by centralised business services.



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## Our lines of business

### Power Networks

Power Networks is responsible for planning, building and maintaining reliable electricity networks to transmit electricity between electricity generators and electricity consumers in the Northern Territory. Electricity is distributed to an estimated 244,300 people across an area of 1.3 million square kilometres. Electricity network services for the regulated networks are delivered pursuant to the 2014 Network Price Determination, administered by the Australian Energy Regulator.

### Water Services

Water Services provides water supply and sewerage treatment and disposal services in the Northern Territory's five major centres. Water is also supplied in 13 minor centres and sewerage services in five minor centres. These services are provided under monopoly licences. Water Services also plan for the long-term security and quality of water supply for the Northern Territory and water demand management initiatives.

### Gas Supply

Gas Supply is responsible for the effective management of long-term gas acquisition, sales and pipeline transmission contracts to ensure gas is delivered to electricity generators and other major gas customers. It is also focused on seeking new gas market opportunities and maximising the use of pipeline transmission capacity including the new Northern Gas Pipeline.

### Regions and Remote Operations

Regions and Remote is responsible for providing electricity, water and sewerage services to 72 geographically isolated and dispersed remote Indigenous communities and 66 outstations, and generating electricity in five minor centres. Apart from the minor centres, these services are delivered through Indigenous Essential Services Pty Ltd, a wholly owned not-for-profit subsidiary of Power and Water, under an agreement with the Department of Housing and Community Development (DHCD). In the remote communities, Power and Water uses an Essential Service Operator (ESO) delivery model to maximise opportunities for local and Indigenous employment and training.

### System Control

System Control has a statutory role in monitoring and controlling the operation of the regulated power systems in the Northern Territory and for overseeing their safe, secure and reliable operation. The System Control Licence, which is issued by the Utilities Commission, determines Power and Water's statutory obligations. Since May 2015, System Control has also been performing the trading, dispatch and market services functions of the Interim Northern Territory Electricity Market and will continue to provide these functions along with other market operator functions pending the design and commencement of the Northern Territory Electricity Market. Other non-regulated services are also provided both internally and to other market participants.

### Business Services

Centralised functional support is provided across the corporation encompassing such aspects as customer services, people and culture, information technology, finance, communications, governance, strategy, pricing and economic analysis, regulatory, risk and compliance services.

## Where we operate

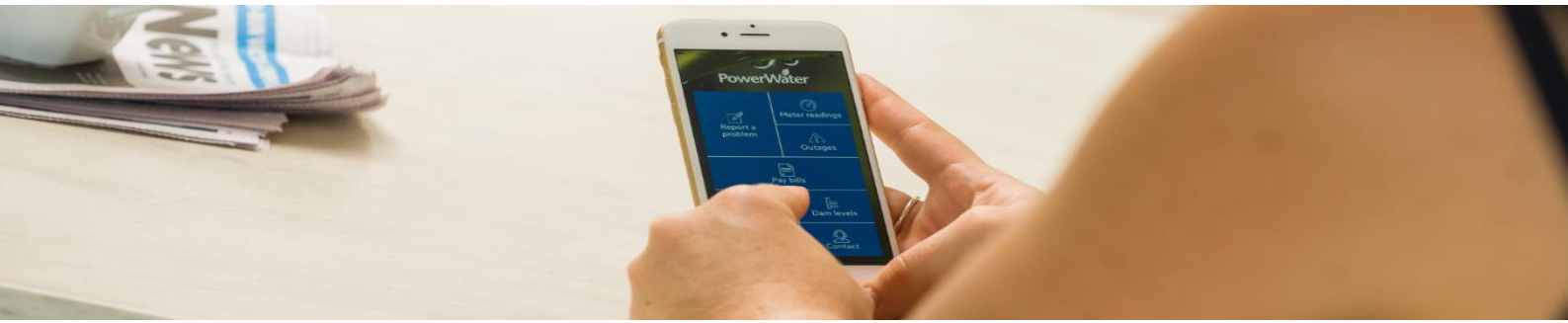
### Power networks, water, sewerage and gas



## Indigenous communities' power, water supply and sewerage services



# Our strategy



**Our vision** is to be a best practice, commercially focused and customer centric multi-utility respected by the community for its contribution to the Northern Territory economy and its pursuit of the long-term interests of consumers.

Over the SCI period 2017-2021 we will continue to work towards transforming our organisation, 2016-17 saw the commencement of this journey with significant amount of time and effort dedicated to developing a road map to achieve our long term goals.

The *Boards' Strategic Directions 2016-2020* document (June 2016) highlighted areas of financial, governance and operating under-performance when benchmarked against our industry peers, which leads to increased costs to customers and/or reduced returns to the Government.

The future brings both challenges and opportunities. Entering the regulatory regime of the National Electricity Rules (NER) in 2019 with network revenue being set by the Australian Energy Regulator (AER), carries the risk of increased financial pressure including the real possibility of needing to reduce operational, corporate services and capital costs beyond those efficiencies already planned in the period. In addition, supporting the Northern Territory's growth means we must develop water conservation initiatives and review our water source strategy to ensure we continue to provide safe and secure drinking water and support future economic development. This provides the imperative for us to drive business efficiencies focussing on our customers to meet these challenges.

With increased expectations in service and quality among our customers, and more broadly the community, we must improve our performance and capabilities to meet these challenges.






The 2017-2021 SCI is a culmination of the directions provided by the Board and reviews undertaken. We recognise the need to quickly evolve if we are to remain a viable and relevant service provider for our customers and to become a best practice multi-utility. Key to our SCI is the commitment to become a more accountable organisation that has good risk management and governance practices, effective frameworks and systems and a structured approach in aligning systems, processes and people to a strategy that drives the business to a commercial and customer focused organisation meeting our Shareholder's expectations.

The first phase of our improvement plan is to 'fix the fundamentals' in our systems and processes enabling efficiency and optimisation of our resources, in addition to building core capabilities in leadership, commercial acumen and asset management. Our Plan identifies five priority projects encompassing a re-set of Power and Waters operating model, culture and capability program, improvement in safety outcomes, improvement of core systems and processes, and the transition to the NER. These priorities will be our focus in this phase of transformation.



2016-17 saw the establishment of improved governance structures around project delivery with the introduction of an Investment Review Committee to review project investments ensuring alignment to strategy and value for money as well as a Program Control Group to monitor the delivery of projects. We will continue the focus on strengthening our risk and governance frameworks. We have substantially implemented our financial improvement program aimed at improving the integrity and responsiveness of our financial systems and processes. We have refreshed our values which are core to everything we do and agreed on behaviours that will help shift our organisational culture. A renewed leadership program has also commenced, to provide the knowledge and tools required to support our leaders in creating a high performing and accountable organisation.

Our vision will be met through the achievement of our strategic goals across five key result areas of Health and Safety, People and Culture, Financial Performance, Operational Performance and Customer. These are underpinned by living our core values.

Key Result Area	Goals	Key strategies (our approach)
<b>Health and Safety</b> 	A proactive safety culture across the corporation based on accountability, trust and ethical behaviour.	1.1 Move to a proactive safety culture in line with best practice. 1.2 Strengthen the delivery of safe drinking water in line with Australian Drinking Water Guidelines.
<b>People and Culture</b> 	A high performing, diverse workforce that has the capability to drive business effectiveness.	2.1 Improve employee engagement to deliver organisational goals. 2.2 Strengthen our capability in leadership, empowerment and accountability. 2.3 Align the organisation in its delivery of goals and strategies. 2.4 Build regional and indigenous capability and opportunities.
<b>Financial performance</b> 	A financially robust and commercially sustainable organisation with a strong capital discipline framework and delivering appropriate returns to our shareholders.	3.1 Lift the level of commercial focus, financial capability and transparency across the organisation. 3.2 Improve the focus on gross margins and capital efficiency. 3.3 Prudently manage debt levels and other key financial metrics benchmarked against similar organisations.
<b>Operational performance</b> 	An efficient provider of services supported by strong asset management, governance and protection of the environment.	4.1 Identify and adopt best practice methodologies across the organisation and leverage synergies across the multi-utility business. 4.2 Rationalise and enhance systems and processes to support efficient business operations. 4.3 Ensure prudent, effective risk and governance practices.
<b>Customer</b> 	A customer centric organisation achieving the respect and trust of all our customers and stakeholders across all parts of the business in delivering our services.	5.1 Clearly understand our customer and stakeholder needs and commit to delivering on those expectations. 5.2 Improve the customer experience by aligning core systems and processes.

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## Priority projects

The following five priority projects will be the major focus for Power and Water over the SCI period.

### 1. Safety improvement

Protecting the health and wellbeing of our people, contractors and the public is one of our fundamental values and underpins all our activities. Through active safety leadership and developing a strong proactive safety culture supported by full visibility of safety outcomes and effective safety management (including capability, systems and accountability), we will protect our employees, contractors and the public.

A revised Health and Safety (H&S) strategy was endorsed by the Power and Water Board in 2017. The strategy is focused on delivering the following:

- a significantly improved Corporate Safety Management System which is tailored to the current operational needs of Power and Water and implemented so as to provide improved value and employee usability to all Business Units
- measurable improvement in Safety Culture from the present 'reactive' state up to 'proactive' using an internationally agreed maturity benchmark within four years
- an enhanced focus and awareness of our high risk activities with alignment of organisational hazard management controls across all areas of Power and Water
- an improved safety capability, leadership and implementation of safety management systems into the operational (field based) layers of our businesses
- sustained achievement of H&S targets.

Our immediate focus is to determine priorities based on the H&S management systems audit, to further embed critical risks focus and controls, to complete Safety Management System simplification, to implement a refreshed contractor management system based on new H&S standards, expectations and processes and to establish a frontline shared leadership framework to drive in-field safety leadership skill development. This will improve safety performance in a number of critical safety and operational areas and will work in partnership with a safety culture improvement process to improve training, systems and behaviours.

### 2. Culture and capability

Having the right culture and capability is critical to become a high performing, best practice, commercially focused and customer centric organisation. This project is focused on enhancing our culture and capability to effectively manage our assets, understand the customer's perspective and be accountable for performance. The aim of this program of work is to achieve the following outcomes:

- leaders that lead by example promoting accountability, motivating their teams to thrive and perform at their best
- a flexible, proactive and constructive culture with people that understand the importance of our customers, are accountable, effectively manage our assets and understand the need for continuous improvement
- strong asset management capability in each line of business supported by effective processes, applications and information management
- enhanced customer experience, better quality service and two-way, more meaningful relationships with our customers and stakeholders
- enhanced financial and commercial acumen across the organisation, resulting in improved value for money outcomes for Power and Water
- encourage diversity and deliver enhanced people management outcomes for the organisation, to enable Power and Water to attract and retain capable and talented people who are aligned to our values.

Immediate initiatives will focus on asset management, financial management and leadership.

### 3. Preparing for the National Electricity Rules

Power and Water's objective under the GOC Act is to operate at least as efficiently as any comparable business and to maximise the sustainable return to the NTG on its investment in the corporation. The NTG is a signatory to the Council of Australian Governments' Australian Energy Market Agreement, which outlines a commitment to a national approach to power network regulation. The NTG is progressively transitioning to network regulation which will be administered by the AER. Power and Water will commence full operation under the new regime on 1 July 2019.

The AER's role is to promote the long term efficient investment and delivery of energy services in the interests of consumers. As part of this, it sets network prices so that energy consumers pay no more than necessary for the safe, secure and reliable delivery of electricity services. It also ensures compliance with the NER and establishes service standards for electricity distribution network service providers.

The AER makes its network revenue determinations with reference to various factors including:

- projected demand for electricity
- age of infrastructure
- operating and financial costs
- network reliability and safety standards.

In making its revenue determination for 2019 to 2024, one of the factors the AER will consider is how Power and Water's expenditure benchmarks against its peers. Power and Water will need to demonstrate how its unique operating environment will impact the benchmarking results and how these results should be used in determining its forecast expenditure allowance for the next regulatory control period. If Power and Water cannot demonstrate to the AER the impact of its unique operating factors, the AER may reduce Power and Water's expenditure allowances and therefore revenue allowances. It is in the interest of the Northern Territory community as a whole to get this revenue allowance approximately right to ensure the lowest possible price for consumers while still allowing Power and Water the capacity to maintain service standards and pay a dividend to the government.

Moving to the new regulatory regime will support the focus of proactively driving sustainable improvements to Power and Water's operating cost structure and capital investment program. This project is focused on the orderly and cost effective transition of our electricity network services to full compliance in line with the NER. This involves:

- negotiating derogation arrangements and engaging with the NTG and the AER ensuring a practical and cost effective transition to the NER
- responding to the Utilities Commission's Code review program seeking to align jurisdictional codes with the NER
- developing our distribution determination and network tariff proposal for the period 2019 to 2024, to the AER by 31 January 2018 with the aim of achieving a sustainable revenue and pricing outcomes for the next regulatory control period
- implementing sustainable changes to our operating cost structure and capital investment efficiency to the levels deemed efficient by the AER.

### 4. Operating model

There is ever-present pressure to minimise what we charge our customers, however the costs of providing services are rising at the same time as customer and community expectations are increasing. We need to respond to this and other emerging challenges and opportunities which we face in our rapidly changing utility industry. Only an operating model aligned to our strategic objectives will allow us to efficiently and effectively organise our business functions, processes and structure to improve our business capabilities and deliver value to our customers and our Shareholder. This project is focused on re-defining the principles of an effective operating model for Power and Water.

The following principles will ultimately determine the operating model design:

- we are commercially focused and maximise the synergies of being a multi-utility
- we have clear process ownership, single point accountabilities and authorities to deliver integrated outcomes
- we empower staff to provide value to the customer both in service quality and price

- we measure and manage our performance, take appropriate actions and strive for continuous improvement
- we innovate, simplify and if appropriate automate
- we look externally to measure our performance.

Implementation of the new operating model will include all aspects of the business including internal structures and will redefine our approach to customers, stakeholders, safety, environment, commercial sustainability, asset management, internal service provision and most importantly, our people.

## **5. Remediate the core systems**

A clear link between business strategy and the Information and Communication Technology (ICT) strategy is essential to help ensure technology does not constrain business efficiency and outcomes, and to provide the flexibility required in line with Power and Water's business strategy. It is recognised that the efficiency and effectiveness of Power and Water has been hampered by such factors as:

- lack of data integrity, reliability, timeliness and efficiency of information systems adding difficulty to business planning, reporting and decision support, generally resulting in reactive rather than proactive management of issues
- ineffective and inefficient business processes, causing increased complexity and customisation of business systems and a higher cost of ICT ownership
- the use of duplicate and legacy systems partially as a result of adopting system solutions that have not fully met business needs
- outdated critical business systems on extended and costly vendor support limiting the ability to access system and efficiency improvements
- inadequate technologies that limits Power and Water's digital footprint and access mobility for employees and external stakeholders, particularly customers.

Although progress has been made towards improving these aspects, particularly around financial systems and processes, there is much more to be done to underpin our business delivery capability. The aim of this project is to have effective processes and fit-for-purpose systems that enable business efficiencies and improve productivity, reduce operational risk, improve customer service and reduce costs. The project is also focused on providing robust key operational and financial information to better support operational decision making and performance accountability across the organisation. By remediating the ICT core systems and processes, we will ensure technology does not impede our ability to achieve our objectives. The scope of this project includes:

- removing unnecessary complexity from current business processes and minimise customisation during system implementation with the aim of improving processes and minimising the total cost of ownership in ICT investments
- upgrading out-of-support systems including Asset Management and Retail Management
- establishing foundational ICT capability such as middleware and business intelligence reporting, allowing for the effective integration of enterprise systems and enhancement of our current reporting capability and decision support
- developing an information management strategy to sustain appropriate level of data quality
- establishing consistent business and technology architecture governance
- leveraging business benefits from these improvements including common mobility and SCADA platforms options.



## Our performance indicators

		2016-17 Budget	2016-17 Actual/ Forecast <sup>19</sup>	2017-18 Budget	2018-19 Target	2019-20 Target	2020-21 Target
<b>Health and safety</b>							
Health and safety index <sup>1</sup>	%	New	New	80	> 80	> 80	> 80
<b>People and culture</b>							
Employee engagement survey <sup>2</sup>	%	> 70	67 *	> 70	> 70	> 70	> 70
Organisation culture index <sup>3</sup>	%	New	New	+15	+15	+15	+15
Indigenous employment <sup>4</sup>	Headcount	46	67 *	81	100	116	122
<b>Financial performance</b>							
Return on capital employed <sup>5</sup>	%	New	1.6	> 4.0	> 4.0	> 4.0	> 4.0
Debt to equity ratio <sup>6</sup>	Times	1.3	1.3	< 1.0	< 1.3	< 1.3	< 1.3
Funds from operations to interest <sup>7</sup>	Times	3.0	2.2	> 3.0	> 3.0	> 3.0	> 3.0
Liquidity (Quick ratio) <sup>8</sup>	Times	1.3	0.6	> 1.0	> 1.0	> 1.0	> 1.0
Statutory net profit after tax <sup>9</sup>	\$M	26.8	(28.6)	> SCI	> SCI	> SCI	> SCI
Operating cost efficiency <sup>10</sup>	%	New	New	< 50	< 50	< 50	< 50
Operating cost ratio <sup>11</sup>	%	New	New	< 100	< 100	< 100	< 100
<b>Operational performance</b>							
System avg interruption duration index (NT system) <sup>12</sup>	Min	New	138.9 *	194.7	194.7	194.7	194.7
System avg interruption frequency index (NT system) <sup>12</sup>	No.	New	2.2 *	3.4	3.4	3.4	3.4
Water demand Darwin per household <sup>13</sup>	kL	393	365 *	394	389	384	378
Water mains breaks per 100 km <sup>14</sup>	No.	New	13.5 *	14	14	13	13
Sewerage chokes and blockages per 100 km <sup>15</sup>	No.	New	21.9 *	24	23	22	21
Wastewater treatment plant discharges are licensed <sup>16</sup>	%	New	100 *	100	100	100	100
<b>Customer</b>							
Customer satisfaction index <sup>17</sup>	Residential / Non-residential %	80	89 / 80 *	80	80	80	80
Complaints resolved <sup>18</sup>	Average business days	New	15	14	13	12	10

All targets reflect PWC unconsolidated.

<sup>1</sup> **Health and safety index:** Reflects a composite measure of twelve health and safety indicators focusing on employee, contractor and public safety performance, effectiveness and verification.

<sup>2</sup> **Employee engagement:** The level of favourable engagement for all staff based on the number of survey respondents measured annually.

<sup>3</sup> **Organisation culture index:** Targeted improvement is an aggregate percentage increase in constructive behaviours each year. An organisational culture survey will be carried out in June 2017 to set the baseline and will be updated every two years. An internal pulse survey will be conducted annually.

<sup>4</sup> **Indigenous employment:** Number of employees identifying as Indigenous (permanent and fixed term, excluding contractors).

<sup>5</sup> **Return on capital employed (ROCE):** EBIT/Capital Employed where EBIT = Taxed earnings before interest and tax adjusted for non-cash impairments and depreciation calculated using Depreciated Replacement Cost for asset valuations; and Capital Employed = Equity adjusted for assets also at Depreciated Replacement Cost + Borrowings. On a statutory basis (i.e. including non-cash impairments) forecast ROCE for 2016-17 would be (3.2%).

<sup>6</sup> **Debt to Equity ratio:** (Term debt + current debt)/equity.

<sup>7</sup> **Funds from operations to interest times:** EBITDA on a statutory basis less gifted assets and non-cash impairments less tax paid/interest expense.

<sup>8</sup> **Liquidity - Quick ratio:** (Current assets – inventories)/current liabilities. The 2016-17 forecast ratio (and ratios for subsequent SCI years) are impacted by the inclusion in current liabilities of government debt due to be repaid to Treasury Corporation within the next twelve months.

<sup>9</sup> **Statutory net profit after tax:** In line with Statutory Accounts. Forecast 2016-17 statutory NPAT reflects the estimated impact of asset revaluations which are forecast to be included as a non-cash write-down of asset values through the Income Statement. Forecast underlying NPAT is \$35.4 million.

<sup>10</sup> **Operating cost efficiency:** Operating costs excluding depreciation, amortisation, impairments, interest, tax and gas costs / Revenue excluding gas costs.

<sup>11</sup> **Operating cost ratio:** Current year Opex / 2015-16 base level Opex. Measure of adoption of efficiencies to maintain total Opex at the same level as total Opex in the 2015-16 base year by absorbing inflation impacts. Opex excludes depreciation, amortisation, impairments, interest, tax and gas costs.

<sup>12</sup> **System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI):** Reflects distribution reliability targets approved by the Utilities Commission in the Standards of Service Code. Rolling 12 month average for the Northern Territory system. Targets for 2019-20 onwards are yet to be set by the Australian Energy Regulator.

<sup>13</sup> **Water demand per household:** Rolling 12 month average for Darwin households.

<sup>14</sup> **Water mains breaks:** Number of breaks per 100km Darwin and Alice Springs. Actual as at 28 February 2017 is for Darwin.

<sup>15</sup> **Sewerage chokes and blockages:** Number of chokes and blockages per 100km Darwin and Alice Springs. Actual as at 28 February 2017 is for Darwin.

<sup>16</sup> **Wastewater treatment plant discharges:** All wastewater treatment plants are licensed or have a current licence submission.

<sup>17</sup> **Customer satisfaction index:** Percentage of customers that rate their overall satisfaction with the Corporation's services as either good or better. Covers major centres (including Darwin rural) based on a random sample of total customer population.

<sup>18</sup> **Complaints resolved:** Average number of working days taken to resolve customer complaints.

<sup>19</sup> **Forecast:** Reflects the 2016-17 forecast prepared January 2017 based on year-to-date actuals to 31 December 2016 adjusted for latest view of non-cash impairment charges and capital expenditure. \* Actuals as at 28 February 2017.

# Power Networks



## Strategic overview

Power Networks is accountable for planning, building and maintaining safe, efficient, reliable and cost effective electricity networks to transmit electricity between generators and consumers and supporting the growth of the Northern Territory economy.

Under the Northern Territory Electricity Market reform program, the applicable provisions in the National Electricity Law and NER began to apply from 1 July 2016 to the Darwin to Katherine, Tennant Creek and Alice Springs regulated electricity networks as part of the phased adoption of the full suite of regulation under the AER from 1 July 2019. This industry reform, along with the increase in disruptive technology and the rapidly increasing expectations among customers and the community will be challenging and will drive us towards deploying new ways of providing our services and improving our performance and capabilities into the future.

The AER's role is to promote long term efficient investment and delivery of energy services in the interests of consumers. As part of this, the AER sets efficient network prices to be passed onto retailers aiming to protect consumers from paying no more than necessary for the safe, secure and reliable delivery of electricity services. It also ensures compliance with the NER and establishes service standards for electricity distribution network service providers.

In making its revenue determination for 2019 to 2024, one of the factors the AER will consider is how Power and Water's expenditure benchmarks against its peers. Based on the application of AER benchmarking methodology as understood by Power and Water and without taking into account the operating environment in the Northern Territory, this could be at least a \$25 million reduction in revenue per annum from 1 July 2019.

Power and Water's focus will be on securing an appropriate revenue allowance that not only supports efficient electricity prices for Northern Territory consumers but also enables Power and Water to renew and invest in electricity network assets and to pay a fair dividend to the Government.

The revenue allowance will be set out in the AER's Distribution Determination which will apply for the five years commencing 1 July 2019. Moving to the new regulatory regime will support the focus on proactively driving sustainable improvements to Power and Water's operating cost structure and capital investment program. This will involve improvements to our culture and capability including health and safety, business processes and systems, strong asset management and commercial focus to meet the long term goals of Power and Water.

With the shift towards customers taking greater control of their energy supply and usage through the increasing penetration of renewable energy sources, energy storage and smart metering, poses a growing challenge for Power Networks to manage the impact on the power systems stability and to proactively leverage new technology changes into the future.

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## Key strategies and initiatives

Power Networks is contributing to the achievement of the corporation's goals with particular emphasis on:

- **Preparation for the transition to the new regulatory regime** – including developing internal capability, stakeholder engagement and initiatives to support the new commercial and regulatory environment.
- **Preparation for the next Distribution Determination** – for the regulatory control period 2019 to 2024 under the jurisdiction of the AER, including the implementation of sustainable improvements to the operating cost structure and capital investment efficiency.
- **Developing capability to respond to 'disruptive' technologies and meet future customer requirements** – including actively engaging with customers and facilitating energy solutions such as smart meters and advanced energy management and power quality systems.
- **Development of our Strategic Asset Management Plan** – based on ISO 55000 and to improve network security, reliability and capability.
- **Implementation of the Metering Strategy** – including a meter data management system solution to improve efficiency and cost effectiveness of the metering business and take advantage of smart metering technology to reduce operational costs and estimated meter reads.
- **Investigating demand management opportunities** – to identify opportunities to defer capital investment and optimise asset utilisation.
- **Customer centric service delivery model** – implementation of customer and stakeholder engagement strategies and establishment of a customer care group.
- **Improved safety culture and accountability** – implementation of a safety cultural program and re-setting our safety management framework.

## Capital investment program

The Power Networks business unit capital investment program is developed in accordance with the planning criteria for load growth and an objective needs based approach to asset replacement. In 2014 the Utilities Commission endorsed a program of capital investment in its 2014 Network Price Determination. This program has been accounted for in the 2017-18 SCI, including the risks and resource capability to deliver these projects on time and within budget. The capital investment program for Power Networks totals \$194.3 million over the four-year SCI period of which \$55.5 million is included in the 2017-18 budget.

Major projects include:

- asset replacement within Berrimah zone substation
- installation of Sadadeen 11kV switchboard
- construction of a new 66kV transmission line from Archer Zone Substation to Palmerston Zone Substation
- third transformer at Palmerston Zone Substation
- power distribution pole replacement program in Alice Springs.

# Water Services

Darwin River Dam

## Strategic overview

Water Services is accountable for providing safe, reliable and cost effective water and sewerage services across the Northern Territory (where this is not provided by Regions and Remote Operations) and supporting the growth of the Northern Territory economy.

The ongoing development and growth of the Northern Territory is placing a greater demand on existing water sources, storage, treatment and delivery infrastructure. Our strategies into the future will focus on becoming a commercially sustainable and customer centric organisation while dealing with the ongoing challenges relating to the trade-offs between water conservation initiatives, developing new water sources, infrastructure investment and ongoing water security and quality.

A prime focus for Water Services is the assurance of public health now and into the future. Water quality assurance is being strengthened through the enhancement of the drinking water quality management system aligned with the Australian Drinking Water Guidelines.

Northern Territory water consumption is excessively high by Australian standards. Darwin's per person usage is more than twice that of other places with similar climates such as Cairns. Further growth within the Northern Territory will eventually require major investment in new water sources by way of augmentation, better utilisation of existing water sources or development of a new water supply source and associated infrastructure. Future options are considered as part of the Darwin Region Water Supply Strategy. Similarly, options to ensure ongoing water security in other areas such as Alice Springs are being investigated.

Appropriate water demand management has the potential to defer major investment in future water source augmentation. The challenge for Water Services is to drive this focus across the community. This can be done through working with government agencies to identify savings measures, changing consumer behaviour by creating awareness of the importance of smart water usage or incentivising changes to consumer behaviour. In addition, Water Services will be managing the revenue impact resulting from lower water use by implementing further cost efficiencies. The ability to fund major investment in the longer-term however will require Water Services to improve its financial position and continue to liaise with the NTG with relation to future funding options.

In the event that Power and Water's revised demand management strategy is unable to reduce overall water demand by the sufficient amount and supply augmentation is required, planning will continue in the 2017-2021 period to develop solutions in consultation with the NTG as part of the *Darwin Region Water Supply Strategy*.

The implementation of a new operating model and other Power and Water wide priority projects will provide the basis to meet these future challenges. Understanding of our customer and stakeholder needs, improving our culture and capabilities, ensuring the health and safety of our people and protecting the environment, along with best practice asset management, efficient and cost effective service delivery and appropriate tariffs and charges, will result in a commercially sustainable and customer centric organisation.



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## Key strategies and initiatives

Water Services is contributing towards achieving Power and Water's goals with particular emphasis on:

- **Growth and Demand** - development of water and sewerage infrastructure to service planned growth in all sectors along with initiatives to alleviate the impacts of that growth through active programs to support water demand management and water conservation. Planning for the augmentation of the Darwin region's water supply sources in line with the revised *Darwin Region Water Supply Strategy* (2030 planning horizon) and ensuring the ongoing ability to treat and dispose of wastewater in line with the *Darwin Region Wastewater Strategy* is a primary focus, as is ensuring adequate redundancy of water supply systems in Katherine, Tennant Creek, Alice Springs and Yulara.
- **Asset performance** - improvement of the management and operation of water and sewerage infrastructure through development and implementation of the Strategic Asset Management Plan based on ISO 55000 and exploitation of the remediated asset management systems. This is aimed at driving benefits in productivity and effectiveness of asset management and maintenance processes. An examination of the level of service needed to meet customer requirements balanced against the need to be commercially sustainable will also be carried out.
- **Risk and compliance** - development of protocols and processes to strengthen risk management and decision making to ensure alignment to risk appetite levels. Ensuring the quality of service and products delivered, in particular the adherence to Australian Drinking Water Guidelines and Waste Discharge Licences. A phased project will drive enhancement of the water quality management system to progress compliance with the Australian Drinking Water Guidelines.
- **Efficiency** - improvement of performance through the implementation of business improvement measures for best practice, cost efficiency and revenue realisation. Ensure that capital investment is necessary and sufficient through a rigorous risk based prioritisation assessment process.
- **Culture and capability** - development of a workforce with strong cultural values and adaptive resilience to deliver the required level of service and achieve the targeted business performance. Develop a safety culture that ensures a safe working environment protecting staff, contractors and the public.
- **Customers and stakeholders** - engagement and consultation with our customers and stakeholders is essential to clearly understand their needs, improve business performance and meet the community's expectations. A range of demand management initiatives will engage customers through programs to educate, promote demand reduction and provide assistance with water conservation measures. A targeted interaction with key stakeholders is fundamental in managing and adapting the drivers for change. Water Services will lead the introduction of a customer reference group and an industry consultation group to facilitate consumer and industry input.

## Capital investment program

Based on detailed water demand modelling, the *Darwin Region Water Supply Strategy* has been revised with the return to service of Manton Dam as a future water source excluded from the SCI period. The capital investment program for the Water Services business unit totals \$238.9 million over the four-year SCI period of which \$66.4 million is included in the 2017-18 budget.

### Water

The proposed water capital program is focused on delivering increased water supply capacity and quality, and improvements to assets to increase water supply reliability. The capital program totals \$111.9 million over the four-year SCI period of which \$34.6 million is included in the 2017-18 budget. The capital program includes:

- **Water transmission (pumping, mains, storage)** – This program is focused on delivering increased supply capacity to meet growth and asset condition improvement for increased reliability. Increasing demand from population and industrial growth in Darwin will require new investment and the augmentation of the water transmission infrastructure including pump stations (Darwin River Dam, Berrimah) and transmission mains (water transmission program). Work on the Alice Springs water infrastructure and upgrading of critical water tanks in Darwin will deliver improvements in water transmission reliability.

- **Water distribution (mains, services, meters)** – This program will deliver distribution network extensions for growth and asset condition improvements to increase supply reliability. A number of major developments in Palmerston and Darwin, plus continuing infill and development, have increased water demand requiring various network upgrades to provide and maintain the level of service. A number of measures are being taken as part of the strategy for leakage and loss reduction in Alice Springs and Darwin including customer and production meter replacement programs. Improved reliability of the distribution system will result from water mains replacement program and various water reticulation improvements.
- **Water Source** – This program is focused on delivering reliable and sustainable water supplies. Planning work will continue on implementation of the *Darwin Region Water Supply Strategy* and upgrade of the Tennant Creek Borefield.
- **Water Treatment** – This program will deliver improvements to water quality treatment assets to ensure the delivery of safe drinking water. A program of works will be undertaken to respond to a water quality treatment and system audit to improve the reliability of all these systems.

## Sewerage

The proposed sewerage capital program is focused on delivering capacity improvements to meet increased demand and compliance requirements. The capital program totals \$127.0 million over the four year SCI period of which \$31.7 million is included in the 2017-18 budget. The capital program includes:

- **Sewerage collection and transport (mains and pumping)** – projects to extend/replace sewer mains and pumping stations in Palmerston east, Camel Farms, Francis Bay and Humpty Doo will deliver the required capacity improvements. The significant outcomes from a reliability perspective will be asset condition improvements due to sewer re-lining, sewer reticulation upgrades and critical sewer pump station renewals.
- **Sewerage treatment (plants and ponds)** – this program will improve treatment plants and related infrastructure to enhance process efficiency and meet compliance requirements. New inlet works at the Leanyer/Sanderson wastewater treatment plant will be completed and further augmentation works commenced to ensure effluent discharge complies with waste water discharge licence conditions. The pond de-sludging program will deliver sewerage treatment efficiencies. Planning for the East Point outfall extension will continue along with inlet works for the Ludmilla Wastewater Treatment Plant, for commencement of construction in the outer years.

# Gas Supply



## Strategic overview

The Gas Supply unit is accountable for the effective management of long term gas supply and pipeline haulage arrangements to ensure gas is delivered primarily to the generation sector and for ensuring the effective management of Power and Water's gas pipeline assets.

A key challenge is to successfully compete in the gas market, while ensuring that the Shareholder's interests are protected and maximum benefit is derived from gas purchase, sales and transportation agreements. The changing and developing energy (electricity and gas) markets in the Northern Territory, dynamic global oil and commodity prices and increasing environmental concerns, create both challenges and opportunities for the purchase, transportation and sale of gas. The Gas Supply unit is well positioned to supply competitively priced gas having extensive long term gas entitlements and long-term gas pipeline haulage services in place. The Gas Supply unit is focused on seeking new gas market opportunities and maximising gas sales, including the use of existing pipeline transmission capacity and new capacity (such as the Northern Gas Pipeline).

Gas wholesale and retail pricing is not regulated, unlike the transportation of gas. This has facilitated a gas spot market in Australia where there are multiple buyers, sellers and gas transporters. This market is in the early stages of maturity and is yet to materialise in the Northern Territory due to the isolation and size of its gas market. With this in mind, a strategic plan has been developed, which includes a road map to improved business performance in line with the vision of becoming a commercially sustainable and customer centric organisation. A strategic assumption is the interconnection to the eastern Australian gas market within two years. In the longer-term, the Gas Supply unit aims to be a profitable gas trading business, operating seamlessly throughout the Northern Territory and interconnected eastern Australian gas markets.

Our success will be underpinned by playing a strategic role in providing technical and commercial expertise and advice to government agencies in securing future gas resources and gas transmission systems to meet growing gas demand to support the development of the Northern Territory economy. Critical to this is having respected relationships in place with our gas stakeholders and ensuring our expertise remains at a high level.

The existing long term gas supply and transport arrangements, combined with the volatility in the market price of gas and the uncertainty in relation to both pricing and volume from as yet unsecured sales contracts, is a risk to Power and Waters' ability to sell the gas at a competitive price. While gas sales are increasing, for a period of time there may be gas available in excess of demand. In the short to medium term, it is expected that gas supplies will tighten as demand grows. Power and Waters' gas sales strategy is designed with the intention of ensuring all costs are covered by revenue and any risks are appropriately mitigated, however gas asset write-downs or provisions remain a risk.

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## Key strategies and initiatives

The Gas Supply unit is contributing towards achieving Power and Water's goals with particular emphasis on:

- **Strategically developing our gas business to grow market share and improve profitability by:**
  - competitively marketing and trading gas to existing and new customers both in the local and eastern Australia gas markets
  - maximising opportunities associated with gas transportation infrastructure including the Northern Gas Pipeline
  - identifying and facilitating development of new energy intensive industrial and extractive industries.
- **Engage effectively with customers and stakeholders** - to build and maintain effective business relationships, deliver accurate and timely advice and to improve the delivery of gas services and infrastructure in line with customer expectations.
- **Position the Gas Supply unit for the future** - by maintaining a highly effective skills base and structure to dynamically respond to risks and opportunities associated with a changing market factors including competition, expansion and demand for gas.

## Capital investment program

The capital investment program for the Gas Supply business unit is focused on new gas infrastructure to support power generation competition within the Northern Territory and gas customer requirements. The capital investment program totals \$24.5 million over the four-year SCI period of which \$6.6 million is included in the 2017-18 budget.

Major projects include:

- Channel Island Bridge pipeline upgrade
- Yuendumu Off-take Facilities with metering assets to interface with a pipeline serving mining operations in the Tanami
- implementation of a Gas Data Management System.



# Regions and Remote Operations



## Strategic overview

Regions and Remote Operations is accountable for providing safe, reliable and cost effective electricity, water and sewerage services to geographically isolated and dispersed, remote Indigenous communities and outstations across the Northern Territory. These services are delivered through Indigenous Essential Services Pty Ltd, a wholly owned not-for-profit subsidiary of Power and Water. The Northern Territory Government (NTG) through their agency, the Department of Housing and Community Development (DHCD), is accountable for strategic community planning and policy development, provision of an annual purchasing plan and associated recurrent grant funding in support and for submission of any additional capital infrastructure specific funding requests.

The challenges for Regions and Remote Operations as an asset owner and service provider lie in the nature of providing essential services in remote locations, with the high cost and risk of operating remotely and increasing regulation of remote areas. Challenges also exist with an ageing asset base, limited asset capacity constraining development and growth, and threatened water resources compounded by high consumption and high rates of leakage within communities with limited known water supplies.

Stakeholders additionally have rising expectations for an improved level of service and regional capability. Land access requirements with land councils require lengthy approval timeframes. Long term planning and coordination across Australian Government and NTG agencies is needed to anticipate and react to remote community development, as is appropriate levels of funding to deliver the necessary services. DHCD have a lead role in undertaking these functions, as informed by Regions and Remote Operations. NTG objectives such as the 50 per cent renewable energy generation target by 2030, Indigenous employment targets along with the commitment to build or upgrade significant additional public housing in remote areas present both challenges and opportunities, and require active support by Regions and Remote Operations under the direction, leadership and funding from DHCD.

Regions and Remote Operations will, over the next four years, engage with government through DHCD on the operating model for delivery of services with the aim of improving financial sustainability and increasing accountability. Areas to be addressed include water supply where most consumers have little incentive to reduce consumption or rapidly repair leaks, in addition the pursuit of opportunities for collaboration with Australian Government, NT Government agencies and Indigenous organisations to reduce costs and enhance local service delivery capability for whole-of-government.

Regions and Remote Operations have an emerging Indigenous inclusive employment and contracting practice to target effective support to our customers, communities and businesses. We will continue to contract and develop Essential Services Operators through local councils and private contractors to operate and maintain essential service infrastructure.

Underlying the successful ongoing provision of essential power, water and sewerage services is the improvement in our culture, safety, financial management, asset management, risk management, governance and customer focus. This is driven by efficient and effective people, processes and systems, which are the focus of Power and Water's priority projects.

## Key strategies and initiatives

Regions and Remote Operations is contributing to achieving Power and Water's goals with particular emphasis on:

- **Working with the DHCD to implement a revised IES Pty Ltd funding agreement** – to manage risks, add value and improve alignment of service requirements to available funding.
- **Accurately documenting the augmentation and replacement needs in delivering power, water and sewerage services** – to ensure stakeholders have accurate and reliable data in which to base their funding decisions upon.
- **Ongoing implementation of the water source and quality strategy** – to manage water quality assurance in line with the Australian Drinking Water Guidelines and continually reassess water source sustainability, including strategies to enable demand management in critically water stressed communities, and requires a robust water quality management system.
- **Ongoing implementation of the energy strategy** – to maintain a cost efficient supply considering capital and operational expenses including:
  - electricity grid connections to replace ageing diesel power stations and displace diesel fuel with solar and gas
  - upgrading old electricity metering technology across all communities with new remotely read prepayment meters to ensure continuity of revenue recovery.
- **Ongoing implementation of the wastewater strategy** – to manage wastewater treatment to achieve health outcomes, to prevent harm to the environment and comply with environmental regulation.
- **Optimising the safe delivery of services** - through improved essential service operator commercial arrangements and accountabilities, continued investment in remote monitoring and controls through satellite and 3G telemetry SCADA systems.
- **Optimising asset management** - through development and deployment of community asset management plans in line with the Regions and Remote Operations Strategic Asset Management Plan.

## Capital investment program

The Regions and Remote Operations capital investment program is primarily aimed at asset renewal, capacity growth and economic advantage. The capital investment program totals \$132.9 million over the four-year SCI period of which \$69.4 million is included in the 2017-18 budget.

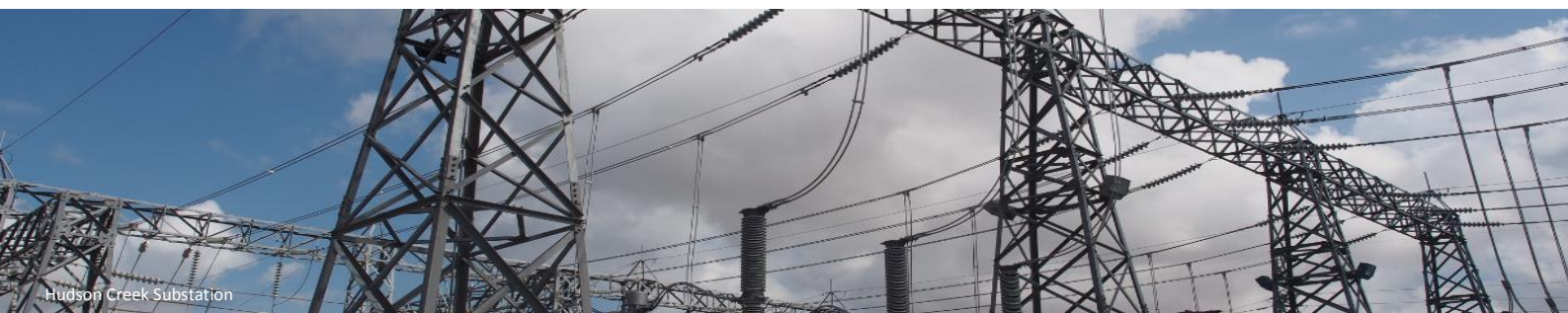
The following projects are expected to deliver reliability and environment benefits in conjunction with economic benefits through reduced energy costs and capital deferral:

- **The Solar SETuP program** – involves the large roll out of 10 MW of solar systems across 30 remote communities, with 94 million litres of diesel savings forecast over 25 years.
- **The grid connection initiative to Nganmarriyanga (Palumpa) and Peppimenarti** – is proposed to use available gas generation capacity in-lieu of diesel and mitigate the need to renew the ageing diesel plants.

Other priority projects include:

- investments in upgrading water treatment including appropriate remote monitoring
- recurrent investment programs to mitigate key risks with aged asbestos cement sewer pipes and for aged bores re-drilling works
- assessing the impact of the NTG's remote public housing initiative on the augmentation and replacement of IES infrastructure and aligning internal planned works programs where practical
- locating and connecting new or enhanced water sources to meet reasonable demand profiles
- addressing prioritised replacement programs to best manage service failure risk from asset deterioration
- improving environmental and health outcomes.

# System Control



## Strategic overview

System Control is accountable for the monitoring and operational control of the three regulated power systems in the Northern Territory, ensuring regulatory compliance within system security and reliability targets and the timely reporting to the Utilities Commission. It is also accountable for providing the trading, dispatch and market services functions of the Interim Northern Territory Electricity Market, and aims to be a modern, efficient multi-utility control centre for the long-term.

The changing regulatory environment and the move towards implementing a wholesale electricity market (the Northern Territory Electricity Market) provides an opportunity for influencing the ongoing development, implementation and refinement of the wholesale electricity market and rules. The challenge is ensuring appropriate resources are available to meet the additional accountabilities related to market operation and associated reporting given the short implementation timeframe. Supporting the efficient and effective operation of the market and ensuring equitable provision of information to all market participants will form part of our business going forward.

System Control has made significant improvements to-date ensuring a high level of system security (one under frequency load shed event in the past two years to December 2016) and customer focus (such as the implementation of an Outage Communication System). Our focus is to continue building on these service improvements and manage system security impacted by the existing generation and network infrastructure configuration and maintenance requirements. The growing penetration of renewable energy (solar), which is expected to increase significantly over coming years supported by the Northern Territory Government's objective of a 50 per cent renewable energy target by 2030, also presents opportunities to influence the effective integration of renewable energy technologies into the power system in a manner that does not compromise system security and meets our customer expectations.

The current and expected future growth in providing critical support services from the existing facility at Hudson Creek is exceeding the present layout and capacity of the facility. Options to improve the present environment while exploring opportunities to provide these services more efficiently from an alternative location will be a focus for the future.

Underlying the successful ongoing provision of system control and market services is the improvement in our culture, safety, financial management, risk management, governance and customer focus. This is driven by efficient and effective people, processes and systems, which are the focus of Power and Water's priority projects. A specific challenge for System Control is the need to retain its technical knowledge and capability with an ageing workforce. This requires consistent efforts to ensure that transfer of knowledge is undertaken to maintain a high level of appropriate skills.

A strong customer focus and the use of technology is also key to ensure a continuing high level of service delivery including improved response times for faults and outages, improved information availability and dissemination to customers and participants. System Control will seek to improve its revenue via market participant fees and charges payable for the wholesale electricity market operator function.

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## Key strategies and initiatives

System Control is contributing towards achieving Power and Water's goals with particular emphasis on:

- **Implementation of the Northern Territory Electricity Market (NTEM)** - including developing and implementing appropriate processes, procedures, systems and contracts to support market commencement as the independent Market Operator and Power System Controller.
- **Managing Alice Springs and Tennant Creek Regulatory Control Transfer** - to improve the technical effectiveness of the network for security constrained economic dispatch.
- **Ensuring the security and reliability of the power systems** - including the implementation of an outage management system to improve quality and reliability of supply and timely information about interruptions to our customers.
- **Supporting the achievement of the renewable energy target** - with our active involvement in the development of the 'Roadmap to Renewables' through the Interagency Working Group and our knowledge of the effective integration of renewable energy technologies into the power system that does not compromise system security.
- **Ancillary services** - specifying and delineating ancillary services to facilitate the unbundling of charges from the wholesale energy tariff.
- **Establishing service level agreements** - negotiate and document the ongoing service agreements between Power Networks and Territory Generation.
- **Building respected business relationships with customers and stakeholders** – this includes providing independent and transparent execution of regulatory functions and establishing an improved understanding of customer and stakeholder requirements.



# Business Services



## Strategic overview

Business services provides strategic thought leadership and consistency across the organisation in the delivery of core functions of health and safety, people and culture, commercial strategies, customer experience, information and communication technology, environment, finance, audit, risk and governance policies, frameworks and systems.

In addition it provides support services centrally and brings together different elements that drive efficiencies in the provision of services, where there are synergies from providing these services centrally, allowing the benefits of a multi-utility to be realised. These services include:

- customer billing, call centre and credit management
- marketing and communications
- stakeholder relations
- employee development and services
- legal and company secretariat support
- property services
- finance and economic services
- quality and regulatory compliance
- audit services
- information and communication technology systems
- environment management
- strategic sourcing.

Business services is a key enabler to Power and Water's success in achieving the goals of becoming an accountable organisation that has good risk management and governance practices, effective frameworks and systems and a structured approach in aligning systems, processes and people to a strategy that drives the business to become a commercial and customer focused organisation.

## Key strategies and initiatives

The primary focus for Business Services is to contribute to the achievement of Power and Water's goals with particular emphasis on the following:

- **Define and implement the Operating Model** to efficiently and effectively organise business functions, processes and structures for the future in order to fulfil our strategic objectives.
- **Remediate the core systems.** Modify our processes and core systems to remove unnecessary complexity and to improve business efficiency, customer support, decision support and asset management whilst improving the total cost of ownership in ICT investments. This includes upgrading out-of-support systems, retiring legacy systems, establishing data as an enterprise asset, seamless integration of enterprise systems and leveraging the enterprise core.

- **Drive improvements in organisational culture including safety** through the implementation of the leadership development and culture change program, designed to shape our culture and improve accountability and performance.
- **Develop our people** through talent management, indigenous employment strategy, diversity strategy, workforce planning and more effective training delivery model and nurture high engagement throughout Power and Water.
- **Establish a capability program** to initiate, monitor progress and track the success of capability uplift initiatives across Power and Water with the immediate focus on leadership, asset management, financial, commercial, customer and stakeholder strategies.
- **Risk management maturity strategy** implementation.
- **Environment strategy** implementation.
- **Drive procurement savings across Power and Water** by establishing an enterprise wide procurement reform strategy and realising savings through more strategic sourcing options including insurance portfolio costs.
- **Enhance the customer experience.** Establish a customer centric operating model within the Customer Service Centre that can be nurtured throughout Power and Water, along with the implementation of a first call resolution strategy, leveraging a digital engagement platform to better understand and serve our customers, and strengthening Power and Water's brand in the community.
- **Develop Power and Water's property strategy** considering our property portfolio needs in the short, medium and long term and develop a plan that will deliver maximum value.
- **Reach agreement on new Enterprise Agreement.**
- **Develop a funding roadmap** with the focus on Water Services.
- Support the development of the **2019 Networks Price Determination.**
- **Drive improvement in organisational strategic planning** including our reporting framework and planning capability.
- **Identify improvements to core financial systems** including budget and consolidation models for better planning and decision support.
- **Drive commercial education** across the business.
- **Implement internal audit roadmap.**
- **Management, governance and assurance framework** and a continuing focus on further improving project governance.

## Capital investment program

The capital investment program for Business Services is aimed at improving the quality and efficiency of our services. The capital program totals \$58.4 million over the four-year SCI period of which \$18.9 million is included in the 2017-18 budget.

Major projects include:

- Asset management system upgrade(Maximo system)
- Retail management system upgrade.

# Financial projections

## Financial summary

Power and Water's financial projections over the SCI period are summarised below.

SUMMARY OF FINANCIAL RESULTS		2016-17 BUDGET	2016-17 FORECAST	2017-18 BUDGET	2018-19 PROJECTION	2019-20 PROJECTION	2020-21 PROJECTION
Total revenue	\$M	631.0	607.4	664.5	692.7	725.8	749.7
Earnings before interest, tax and depreciation	\$M	202.2	98.6	187.3	210.2	229.8	247.4
Earnings before interest and tax	\$M	97.1	0.7	83.5	101.8	115.3	128.3
Net profit after tax	\$M	26.8	(28.6)	26.4	38.9	45.2	56.2
Operating cost efficiency	%	54.8	57.4	56.6	54.3	51.7	48.8
Operating cost ratio	%	97.2	100.2	100.9	97.0	95.8	92.3
Cashflow from operations	\$M	119.5	91.1	94.4	120.3	151.6	166.2
Capital investment	\$M	157.4	123.8	147.4	111.6	123.6	133.5
Return on capital employed	%	New	1.6	1.9	2.1	2.6	3.0
Funds from operations to interest ratio	times	3.0	2.2	3.3	3.9	3.9	4.3
Debt to equity ratio	times	1.0	1.3	1.3	1.3	1.2	1.2
Quick ratio	times	1.3	0.6	0.6	0.6	0.5	0.5

Note: Excludes Regions and Remote Operations

## Revenue

Total revenue is projected to increase from \$607.4 million in 2016-17 to \$664.5 million in 2017-18. Core electricity, water and sewerage services revenue is assumed to increase in line with CPI over the year on the assumption of minimal population growth. Gas revenue is forecast to increase by 26% as gas customers come online over the course of the year. Gifted asset revenue, which is provided to Power and Water as part of new developments, is expected to also increase to \$23.0 million due to the delayed completion by developers over the 2016-17 year. For future years gifted assets are expected to return to levels around \$15.0 million per annum. The projections assume a continuation of CPI increases for power networks, water and sewerage throughout the SCI period. However there is considerable uncertainty about Power Networks revenue in 2019-20 and 2020-21 due to the transition to the AER processes for determining the revenue cap. Revenue growth in the outer years of the plan is also driven by forecast increase in gas sale volumes.

## Net profit after tax

Statutory net profit after tax (NPAT) is budgeted in 2017-18 to be \$26.4 million profit compared to a loss of \$28.6 million forecast for 2016-17. The forecast loss in 2016-17 is driven primarily by the impact of non-cash impairments in relation to the core operational assets of the Power Networks business and to continuing banked gas impairments in the Gas business as the future gas consumption forecasts are not sufficient to support the recognition of an asset in relation to gas paid for and not yet used ('banked gas').

The fixed assets of Power and Water are stated at fair value in accordance with the fair value requirements of Australian Accounting Standards, with the core operational assets of Power Networks and Water Services valued using the income approach. The income approach has a 'purchaser of the business perspective' and is based on the net present value of the forecast cash flows of the operating businesses applying anticipated market conditions.

It is important to note that the carrying value of fixed assets in the balance sheet and as a consequence, depreciation in the income statement, differs to a depreciated replacement cost (DRC) basis of valuation which is based on the cost of replacing the assets of the business in their depreciated state. The last depreciated replacement cost valuation obtained by the Directors in 2013, indicated that depreciated replacement cost of Power Networks and Water Services was substantially higher than the value determined using the income approach.

As a consequence, the depreciation charge to the income statement using the DRC methodology would (prima facie and in the absence of any required impairments) be higher than that calculated by reference to the income approach methodology.

Whilst still subject to the completion of the fixed asset rectification project by 30 June 2017, it is estimated that forecast DRC depreciation for 2017-18 would be \$142.7 million compared to depreciation under the income approach forecast at \$103.8 million. In isolation this would result in a dollar for dollar reduction in profit and hence, after tax is applied, a reduction in the potential available returns to the shareholder.

The income approach is not the basis of valuation that would be used by an economic regulator for price regulation or by analysts for most other public policy purposes. This is because an income approach method of valuing assets and hence determining the depreciation allowance does not ensure there is capacity to replace assets needed to maintain the externally required standards of service.

On an underlying basis (i.e. excluding non-cash costs associated with write-downs of fixed assets and impairment of banked gas), NPAT is forecast to marginally increase from a profit \$35.3 million in 2016-17 to \$35.4 million in 2017-18. Underlying NPAT is impacted by a small reduction in the gas business trading margin, a short term investment in the key enabling priority projects and increased salary and wage costs due to standard increase provisions in the Power and Water Enterprise Bargaining Agreements, mitigated by revenue increases in line with CPI provisions of \$7.4 million and a continuing focus on cost efficiency within acceptable risk tolerances which continues through the SCI period.

## Community service obligations (CSO)

The CSO funding in this SCI includes funding from Territory Families for the Pensioner and Carer Concession Scheme to provide concessions to eligible customers for electricity, water and sewerage services. In addition, an assumption is made about a CSO related to gas pricing and transportation costs.

COMMUNITY SERVICE OBLIGATIONS	2016-17 BUDGET	2016-17 FORECAST	2017-18 BUDGET	2018-19 PROJECTION	2019-20 PROJECTION	2020-21 PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Uniform Tariff Concession	6.6	4.3	6.8	6.8	7.4	7.6
Pensioner and Carer Concession	7.9	8.6	8.6	8.6	8.6	8.6
Gas Concession	18.0	18.0	18.7	0.0	0.0	0.0
<b>Total</b>	<b>32.5</b>	<b>30.9</b>	<b>34.1</b>	<b>15.4</b>	<b>16.0</b>	<b>16.2</b>

## Operating costs

As a result of the key enabling priority initiatives and a continuing focus on cost efficiency, controllable operating costs excluding gas and impairments are forecast to reduce significantly over the SCI period after showing a marginal increase in 2017-18 of 0.6% primarily as a result of projected salary and wages cost increases and a short term investment in the priority projects. Costs excluding gas and impairments will reduce over the SCI period by 7.8% from 2016-17 levels after allowing for the full absorption of inflation over the period.

OPERATING COSTS	2016-17 BUDGET	2016-17 FORECAST	2017-18 BUDGET	2018-19 PROJECTION	2019-20 PROJECTION	2020-21 PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Power Networks	96.0	105.8	112.7	106.1	104.5	99.4
Systems Control	10.6	11.9	8.0	8.3	8.0	7.8
Water Services	92.0	93.8	94.7	95.0	93.2	91.5
Gas Supply	208.8	191.0	234.9	262.1	279.0	291.8
<b>Non-cash items:</b>						
Power Networks - asset write-down	0.0	71.0	0.0	0.0	0.0	0.0
Gas - banked gas impairment	7.9	20.4	12.8	0.0	0.0	0.0

## Non-cash impairments and write-downs

### Banked gas

As detailed in the Key Assumptions (banked gas), Power and Water is required to write-off gas purchased where no delivery will be received until an undetermined future period. This is required if the future forecast cash flows of the gas business is insufficient to support the recognition of an asset in relation to gas paid for and not yet delivered. The forecast for 2016-17 includes \$20.4 million in banked gas impairments which reduces to \$12.8 million in 2017-18. These non-cash costs are not

anticipated beyond 2017-18 as the forecast assumes that minimum quantities of gas to be purchased by Power and Water under existing supply agreements will be exceeded, enabling the utilisation of banked gas to commence.

#### Asset write-downs

The fixed assets of Power and Water are carried at fair value in accordance with the fair value requirements of the Australian accounting standards with the core operational assets of the Power Networks and Water Services business units using the Income approach. Consistent with the relevant accounting standards the income approach has a 'purchase of the business perspective' and is based on the net present value of the forecast cash flows of these businesses applying anticipated market conditions. Accordingly, \$71.0 million has been forecast to be expensed against Power Networks operational assets in 2016-17 based on an assessment of current forecast cash flows. Future write-downs would only be required if the forecast position in future years materially changed.

For Water Services assets, again based on forecast cash flows, an increase in carrying value in excess of \$150.0 million has been calculated. Under accounting standards, increases are recorded against reserves and not through the profit and loss. Accordingly, the balance sheets and reserves positions have been updated for water and sewerage operational assets with no amount recognised in the income statement.

#### Other expenses

Depreciation is forecast to increase from \$97.9 million in 2016-17 to \$103.8 million in 2017-18. As noted in the assumptions however, depreciation expense is estimated pending completion of the asset rectification project in June 2017.

Interest expenses increase over the SCI period from \$41.6 million to \$48.1 million. Borrowings are forecast to increase by \$33.0 million over this period, however the major impact on interest expense is from the roll-over of debt facilities which are forecast by Treasury to occur at higher interest rates than Power and Water is currently experiencing.

#### Cash flow

Operating cash flow is forecast at \$91.1 million in 2016-17 and \$94.4 million in 2017-18. Increases in the Earnings Before Interest, Tax and Depreciation lead to significant operating cash flow in the last three years of the SCI with \$166.2 million being generated in 2020-21.

Capital expenditure (excluding Regions and Remote Operations) is forecast to increase to \$147.4 million in 2017-18. Capital expenditures decrease over the SCI period leading to significant free cash flow surpluses in 2018-19 and beyond. Power and Water targets sufficient free cash flow to enable returns to be made to its shareholder by way of dividends.

#### Capital investment summary

The capital investment program excluding Regions and Remote Operations totals \$516.0 million over the four-year SCI period of which \$147.4 million is included in the 2017-18 budget.

CAPITAL INVESTMENT PROGRAM	2016-17 BUDGET \$M	2016-17 FORECAST \$M	2017-18 BUDGET \$M	2018-19 PROJECTION \$M	2019-20 PROJECTION \$M	2020-21 PROJECTION \$M	4 Years SCI TOTAL \$M
Power Networks	64.0	63.0	55.5	46.9	40.6	51.2	194.3
Water Services	57.7	40.5	66.4	39.2	65.4	67.8	238.9
Gas Supply	6.9	4.5	6.6	9.3	4.3	4.3	24.5
Business Services	28.7	9.6	18.9	16.2	13.2	10.1	58.4
<b>Total (excluding Regions and Remote Operations)</b>	<b>157.4</b>	<b>117.5</b>	<b>147.4</b>	<b>111.6</b>	<b>123.6</b>	<b>133.5</b>	<b>516.0</b>
Regions and Remote Operations	73.6	43.9	69.4	26.2	18.4	18.9	132.9
<b>Total including Regions and Remote Operations</b>	<b>231.0</b>	<b>161.5</b>	<b>216.8</b>	<b>137.8</b>	<b>142.0</b>	<b>152.4</b>	<b>648.9</b>

Note: The 2016-17 Forecast Capital investment shown above varies from the capital expenditure shown in the cash flow statement due to the impact of the timing of receipts of invoices and accruals. The table above includes costs as incurred, not as payments are made and assets recognised in the balance sheet. Regions and Remote Operations is delivered through Indigenous Essential Services

Power and Water's investment in power network, water, sewerage and gas infrastructure and services over the SCI period will cater for demand growth, service reliability and business efficiency.



# Key assumptions

The key economic and operational assumptions used to prepare the financial projections included in this SCI are detailed below. The assumptions outline the expected business environment, reflect corporate strategies and provide the basis for financial modelling and the development of operating and capital expenditure.

## Electricity demand

Peak demand is one of the major drivers of Power Networks' capital investment program. The following table shows the 2017-18 peak demand forecasts for the Darwin-Katherine, Tennant Creek and Alice Springs networks.

Peak demand (MW)	Darwin-Katherine	Tennant Creek	Alice Springs
Forecast 2016-17 SWMD	309 MW	7.2 MW	56 MW
Forecast 2017-18 SWMD	308 MW	7.2 MW	56 MW
10 year forecast CAGR	0.6%	0.11%	(0.5%)

SWMD – Standard Weather Maximum Demand

CAGR – Compound Annual Growth Rate

## Water demand

The following table shows the 2017-18 demand forecasts.

Total consumption (ML)	Darwin	Katherine	Tennant Creek	Alice Springs
2016-17 estimated	40,156	3,762	1,353	8,035
Growth	0.28%	0.9%	0.9%	(0.01%)
2017-18	40,266	3,796	1,365	8,034

Regional growth rates were developed taking into consideration weather normalisation adjustments, natural (organic) growth, one-off growth events, price elasticity and demand management initiatives.

Demand management adjustments have been incorporated in the overall growth rate for Darwin based on Water Services' demand management targets under the 'Living Water Smart' program in Darwin. This program is targeted to reduce water demand ramping up to a 7.6 gigalitres per annum reduction by 2025-26. This is assumed to impact revenue over the SCI period progressively up to \$5.3 million in 2020-21. There have not been any one-off growth events identified that may impact demand.

## Electricity, water and sewerage in remote communities

Demand growth forecasts for remote Indigenous communities serviced by IES Pty Ltd have returned to moderate levels, after a number of high growth years resulting from significant housing and infrastructure investment by the Australian and Northern Territory Governments. The IES electricity retail sales forecast is based on actual 2015-16 electricity consumption (kWh). IES growth rates have been determined in conjunction with the Regions and Remote business unit. Underlying demand growth rates the SCI period have been conservatively set at 1.4 per cent for electricity and 0.0 per cent for water and sewerage on the basis that increases in population are unlikely to have a major influence over water consumption. An additional 0.5 per cent annual increase has been added to electricity, water and sewerage growth to account for the establishment of construction camps during the building of new remote housing.

Forecast growth rates for electricity, water and sewerage services consumption for IES is shown in the following table.

Description	2017-18 budget	Average growth over SCI period (2018 to 2021)
Electricity (kWh)	1.9%	1.9%
Water (kL)	0.5%	0.5%
Sewerage	0.5%	0.5%

## Gas supply and sales

The financial projections in this SCI assume that the Blacktip Gas Field will continue to provide gas supply for electricity generation in the major centres in the Northern Territory and that further gas sales agreements are finalised. The Blacktip field is backed up by emergency supply contracts with Darwin LNG and Inpex (once operational) via the Wickham Point Interconnect Pipeline and the recently completed Inpex Lateral respectively. A third source of back-up gas may become available from the Northern Gas Pipeline once this project is delivered in later part of 2018. It has been assumed that sales will increase substantially over the SCI period underpinned by the commencement of a major long-term gas contract with Incitec Pivot from 2018.

## Other financial assumptions

Power and Water Enterprise Agreement (EA)	The Power and Water EA is due for renegotiation in 2018. It has been assumed that given the very low CPI and wage growth environment being experienced across Australia, the terms of the new EA will result in a small reduction in the rate of annual salary increases.
Overhead capitalisation	The Accounting Standards on Capitalisation of Assets provide for certain indirect costs associated with the construction of assets to be capitalised. Following a review of the application of relevant accounting standards Power and Water has assumed that by fully applying the provisions of the Standard, approximately \$3.0 million of additional overhead cost will be capitalised per annum from 2016-17.
Procurement initiatives	An initiative has been identified to achieve savings in procurement over time. These savings will be realised from a combination of initiatives including improved project management processes, enhanced tendering management, optimising services that are outsourced and stronger commercial oversight of contracts.
Other target savings	Target savings in the vicinity of \$15 million operating costs and \$20 million capital expenditure across the four year SCI planning period have been incorporated. The underlying drivers for these savings are yet to be identified and are on-top of efficiencies already built into the plan through the outcomes of the priority projects and other key business initiatives.
Borrowing costs	Borrowing costs reflect advice from Treasury Corporation based on the budgeted debt profile.
Fixed Asset rectification project and forecast 2016-17 valuation outcomes	<p>A fixed asset rectification project is due for completion by 30 June 2017 which involves the rebuild of the underlying fixed asset registers and will significantly improve the detailed evidence behind the fixed asset values. One of the outcomes of the rectification project will be an accurate revaluation reserve balance by class of asset as at 30 June 2016. Consistent with the valuation approach adopted for 2015-16, the application of the income approach to the SCI cash flows of the core operational assets of the Corporation is forecast to result in significant movements against the prior year carrying values for those core assets.</p> <p>Whilst the final outcome for 2016-17 will be dependent on the completion of the fixed asset rectification project for the purposes of this SCI preparation, it has been estimated that \$71 million will be expensed through the current year profit and loss account in relation to Power Networks operational assets and \$150 million will be written up against the revaluation reserve in equity in relation to Water Services operational assets. Although these movements are dependent on the outcome of the fixed asset rectification project, they are the best estimate of the impact to Power and Water at the time of preparation.</p>

Depreciation	Actual depreciation charges in 2016-17 and throughout the SCI period will only be able to be calculated upon completion of the fixed asset rectification project. The depreciation expense assumption included in this SCI are based on the actual expense for 2015-16 adjusted for additions, disposals and other revaluations that have been booked against these assets. Once the project is complete, depreciation assumptions will be revised however this will only occur post preparation of this SCI.
Banked gas impairment	<p>Under existing gas supply contracts to Power and Water, a minimum quantity of gas is required to be purchased each calendar year. Where this gas is not drawn down by Power and Water, delivery can be deferred until a future period however payment is still required in the current year. This gas is referred to as 'banked gas'. Where delivery timing is uncertain, accounting standards require this undelivered gas to be written-off.</p> <p>Assumptions have been made around the quantities of gas to be delivered in future years and when Power and Water will be able to utilise banked gas. As the cost of banked gas to date has been expensed through the profit and loss, this will result in gas being sold for which no cost is shown in the year it is used.</p>
Dividends	Dividends are assumed to be paid at 50 per cent of the statutory prior year net profit after tax of the Corporation. Having regard to the forecast statutory loss for 2016-17 It has been assumed that no dividend will be declared in relation to the 2016-17 financial year but that dividends will be declared in subsequent years at 50 % of statutory profits. Dividends are paid in the year subsequent to that in which they are declared.
Accounting policies	The SCI has been prepared based on accounting policies outlined in the 2015-16 Annual Accounts.

# Key risks

Power and Water has adopted an established risk management framework aligned to appropriate Australian and International standards. The framework is designed to ensure that regular assessments are undertaken to ensure the identification and effective management of significant risks including financial, legal and regulatory, fraud and reputational risks.

The risk management framework identifies our strategic risks, major business risks and operational risks with mitigating actions assigned to reduce the exposure and to achieve acceptable risk levels. These risks are managed throughout the organisation in line with the Audit and Risk Management Committee charter.

The following identifies Power and Water's (PWC) major risks and high level mitigation strategies. The risk management framework will be reviewed during 2017-18 and may impact the risk identification and mitigation strategies outlined below.

Major risk	High level risk mitigations
<b>Public safety</b> Due to diverse nature and location of PWC's operations there is a risk that PWC may fail to provide a safe environment to the general public which could result in harm or fatality to members of the public, reputational damage and financial loss.	Health and Safety Management System; Drinking Water Quality Management System
<b>Staff and contractor health and safety</b> Due to diverse nature and location of PWC's operations there is a risk that PWC may fail to provide a safe environment to its people and contractors in the workplace which could result in harm or fatality to members of the public, reputational damage and financial loss.	Health and Safety Management System; Workplace health and safety strategy 2016-2020
<b>Water security</b> There is a risk that PWC may fail to meet its service obligations for a safe and secure supply of potable water which could result in critical water shortages, reputational damage and financial loss.	Darwin Region Water Supply Strategy
<b>Water quality management</b> There is a risk that PWC may fail to meet its service obligations for a safe and reliable supply of potable water which could result in harm or fatality to members of the public, environmental damage, reputational damage and financial loss.	Drinking Water Quality Management System (including remote communities)
<b>Waste water management</b> There is a risk that PWC may fail to meet its service obligations for a safe and reliable supply of non-potable and recycled water which could result in harm or fatality to members of the public, environmental damage, reputational damage and financial loss.	Recycled Water Management System; Waste Water Discharge Licence program; Darwin Region Waste water Strategy
<b>Northern Territory Electricity Market reform</b> When the AER compares PWC with raw industry benchmarks, there is a risk that PWC cannot demonstrate to the AER the impact of its unique operating factors, the AER may reduce Power Networks expenditure allowances and therefore revenue allowances posing a risk in Power Networks ability to operate to agreed service standards and meet agreed financial performance metrics.	Operating cost structure and capital investment improvement strategies in line with future Distribution Determinations; Stakeholder engagement on the establishment and operation of wholesale electricity market
<b>Transformation and change</b> Due to the ongoing transformation and change initiatives driven through the organisation and competing priorities, there is a risk of change fatigue which could result in failure to attract and retain staff, decrease in staff morale, productivity and service delivery.	Employee engagement strategies; Culture and Capability program
<b>Culture and capability</b> There is a risk that PWC may fail to optimise its people, and generate a high performing, diverse workforce that is capable of meeting the business objectives which could result in decrease in service delivery, reputational damage, decreased staff morale and financial loss.	Culture and Capability program

<b>Financial sustainability</b> There is a risk that PWC may fail to maintain a financially and commercially sustainable business which could result in financial loss and decreased service delivery.	Financial processes and controls; Project and investment governance framework; Project Management Office and Program Control Group
<b>Legal and regulatory compliance</b> There is a risk that PWC may fail to identify and/or breach its legal and regulatory compliance obligations which could result in financial sanctions and reputational damage.	Compliance Strategy and Programs
<b>Customers and stakeholders management</b> There is a risk that PWC may fail to effectively engage, understand and address the needs of its stakeholders (including the Government, workforce, customers, business, Utilities Commission and the general public) which could result in loss of government funding, financial loss, reputational damage, increased scrutiny from regulatory bodies and rule changes.	Customer and Stakeholder engagement strategies
<b>Emergency management</b> There is a risk that PWC may not effectively or efficiently prepare for, respond to and recover from emergency events which could result in injury or fatality to staff or public, financial loss, reputational loss, and breach of legislation.	Crisis Management Plans and Committees
<b>Security management</b> There is a risk that PWC may not have the effective processes in place to respond effectively when required which could result in Cyber security attacks, financial loss, compromise of sensitive and commercial information, injury to staff and the general public, impact on service delivery and reputation.	Security Management Function, barriers at high risk sites, ICT security strategy
<b>Supply of core services</b> There is a risk that PWC may fail to meet customer needs and expectations in its delivery of core services which could result in injury, legal and regulatory consequences, financial loss and reputational damage.	Operating Model; Asset management framework; Darwin Region Water Supply Strategy; Water conservation initiatives; System Control system security management
<b>Asset management</b> There is a risk that assets may age beyond their life expectancy which could result in service failure, decreased operations and financial loss.	Asset management framework; Risk based prioritisation assessment
<b>Environmental management</b> There is a risk that PWC may be unable to minimise the environmental impact of its operations which could result in harm to the general public, harm to the environment, reputational damage and financial loss.	Environmental Management System

In addition to the major risks, there are other significant business risks that are identified and specific to initiatives in the planning period. These risk and compliance areas include, but are not limited to:

- regions and remote service delivery risk impacted by funding policy and the timely replacement of ageing assets which could result in possible service and public safety failure, impacting Power and Water's reputation and increasing cost profiles
- gas supply profit risk if unable to derive maximum benefit from gas purchase, sales and transportation agreements and ensure shareholder interests are protected in the competitive gas market
- water demand management strategy risk if unable to significantly change consumer behaviour
- optimisation of asset maintenance program risk if ineffective planning.

Various frameworks, strategies and project plans are in place and are being refined as necessary to mitigate the key risks.



# Appendix 1

## Financial Data: Power and Water Corporation (unconsolidated)

INCOME STATEMENT						
POWER AND WATER CORPORATION Unconsolidated	2016-17 BUDGET \$M	2016-17 FORECAST \$M	2017-18 BUDGET \$M	2018-19 PROJECTION \$M	2019-20 PROJECTION \$M	2020-21 PROJECTION \$M
<b>REVENUE</b>						
Electricity Network	187.8	186.8	192.7	194.9	199.5	204.3
Electricity Retail	4.2	5.2	4.3	4.4	4.5	4.6
Water	112.6	112.0	115.3	118.3	122.3	126.0
Gas	182.7	160.2	201.9	252.2	272.4	279.7
Sewerage	72.0	76.7	76.4	81.4	84.8	88.6
CSO	32.5	30.9	34.1	15.4	16.0	16.2
Developer and Capital Contributions	5.2	3.0	2.9	2.9	3.1	3.1
Gifted Assets	18.7	18.6	23.0	13.0	13.0	17.0
Interest Received	1.0	1.0	1.0	1.0	1.1	1.1
Other Revenue	14.2	13.1	12.9	9.3	9.1	9.1
<b>Total Revenue</b>	<b>631.0</b>	<b>607.4</b>	<b>664.5</b>	<b>692.7</b>	<b>725.8</b>	<b>749.7</b>
<b>OPERATING EXPENDITURE</b>						
Personnel - Direct	119.0	132.1	139.0	138.8	137.7	140.1
Personnel - Operational Recovery (R&M)	(28.3)	(28.4)	(27.7)	(27.2)	(27.3)	(27.3)
Personnel - Operational Recovery (CAPEX)	(18.3)	(17.2)	(19.6)	(17.5)	(13.8)	(15.1)
Contract Labour	7.1	7.1	5.6	5.0	4.7	4.5
<b>Total Personnel Costs</b>	<b>79.6</b>	<b>93.7</b>	<b>97.3</b>	<b>99.1</b>	<b>101.4</b>	<b>102.1</b>
Energy	202.5	185.1	233.9	261.9	278.6	293.3
Repairs & Maintenance	65.2	58.8	61.0	59.6	61.3	60.3
IT & Communications	7.9	8.1	5.9	5.1	5.0	4.1
Vehicle Costs	6.1	6.8	5.5	4.9	4.4	3.2
Travel Costs	0.9	1.0	1.3	1.0	1.0	1.0
Training Costs	2.4	2.4	2.2	2.0	1.9	1.8
Professional Fees	11.3	15.6	17.2	11.4	7.1	5.9
Insurance	3.4	3.1	2.9	3.0	3.0	3.0
Materials	4.7	4.0	4.1	4.1	4.1	3.9
External Service Agreements	12.6	12.7	10.4	9.8	9.0	7.4
Cost of Sale	1.8	0.7	1.5	1.3	1.2	1.1
Property Charges	17.4	16.2	15.1	14.1	13.5	11.8
Bad & Doubtful Debts	1.0	1.0	0.3	0.3	0.4	0.4
Obsolete Inventory	0.9	(0.0)	0.0	0.0	0.0	0.0
Impairment Costs	7.9	91.4	12.8	0.0	0.0	0.0
Laboratory Fees	1.7	1.7	4.5	4.6	4.7	4.4
Grants & Subsidies	1.9	1.0	1.5	1.5	1.5	1.6
Bank Fees	0.2	0.2	0.2	0.2	0.2	0.2
Other Costs	12.1	12.2	9.3	8.2	7.2	5.9
<b>Total OPEX</b>	<b>441.6</b>	<b>515.6</b>	<b>486.8</b>	<b>492.1</b>	<b>505.4</b>	<b>511.4</b>
Inter Company Allocations	(12.8)	(6.7)	(9.5)	(9.6)	(9.4)	(9.1)
<b>Total Operating Expenditure</b>	<b>428.7</b>	<b>508.8</b>	<b>477.2</b>	<b>482.5</b>	<b>496.0</b>	<b>502.3</b>
<b>EBITDA</b>	<b>202.2</b>	<b>98.6</b>	<b>187.3</b>	<b>210.2</b>	<b>229.8</b>	<b>247.4</b>
Depreciation & Amortisation	108.2	97.9	103.8	108.4	114.5	119.1
Depreciation (Internal Re-charge)	(3.0)	0.0	0.0	(0.0)	0.0	(0.0)
<b>EBIT</b>	<b>97.1</b>	<b>0.7</b>	<b>83.5</b>	<b>101.8</b>	<b>115.3</b>	<b>128.3</b>
Interest Expense	57.7	41.6	45.8	46.2	50.8	48.1
<b>Net Profit Before Tax</b>	<b>39.5</b>	<b>(40.9)</b>	<b>37.7</b>	<b>55.6</b>	<b>64.5</b>	<b>80.2</b>
Tax Expense/(Benefit)	12.7	(12.3)	11.3	16.7	19.4	24.1
<b>Net Profit After Tax</b>	<b>26.8</b>	<b>(28.6)</b>	<b>26.4</b>	<b>38.9</b>	<b>45.2</b>	<b>56.2</b>

# Glossary

ADWG	Australian Drinking Water Guidelines
AER	Australian Energy Regulator
CAPEX	Capital expenditure
CPI	Consumer Price Index
DHCD	Department of Housing and Community Development
DD	Distribution Determination
DNSP	Distribution Network Service Provider
DRC	Depreciated Replacement Cost
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
ESO	Essential Service Operator
FTE	Full Time Employee
GOC	Government Owned Corporation
GST	Goods and services tax
H&S	Health and safety
ICT	Information and communication technology
IES	Indigenous Essential Services Pty Ltd
INTEM	Interim Northern Territory Electricity Market
ISO	International Organisation for Standardisation
kL	Kilolitre
Km	Kilometers
KPI	Key Performance Indicator
KRA	Key Result Area
kV	Kilovolt, 1,000 volts
kWh	Kilowatt hour
LNG	Liquefied Natural Gas
M	Million
ML	Megalitre
NER	National Electricity Rules
NGP	Northern Gas Pipeline
NPAT	Net Profit After Tax
NPD	Network Price Determination
NT	Northern Territory
NTEM	Northern Territory Electricity Market
NTG	Northern Territory Government
OPEX	Operating expenditure
PWC	Power and Water Corporation
RM	Repairs and maintenance
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCADA	Supervisory Control and Data Acquisition (software application program for gathering of data in real time from remote locations in order to control equipment and conditions)
SCI	Statement of Corporate Intent
TGen	Territory Generation
UC	Utilities Commission
WWTP	Wastewater Treatment Plant

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