



# Statement of Corporate Intent

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2018-19

PowerWater

# PowerWater

## Key Statistics



1.3 million square kilometres

244,300 people

72 remote communities, 66 outstations, 5 major centres, 13 minor centres

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94,300 electricity customers

52,300 water and sewerage customers

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3 regulated power systems controlled

1,920 gigawatt hours distributed

7,170 km of overhead lines maintained

3,290 km of underground cable maintained

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65 billion litres of drinking water sourced

28 billion litres of waste water collected/treated

2,990 km of water mains maintained

1,550 km of sewer mains maintained

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90% of gas needs to NT grid connected electricity generators

\$4.0 billion in long-term gas supplies managed

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937 employees supporting the NT (full time equivalent)

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\$2.8 billion of physical assets managed

\$156 million invested in capital works,  
including \$38 million servicing remote communities

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\$395 million paid to suppliers

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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 (who holds the shares in the Government Owned Corporation on behalf of the Northern Territory Government), 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 2018.

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 acknowledges it has an important role in facilitating the efficient delivery of the NTG social and economic agenda and working positively with key stakeholders.

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

Across the Northern Territory, Power and Water:

- owns and operates the large dams and groundwater fields to deliver clean drinking water to households and businesses, and removes and treats wastewater before disposing of it in an environmentally responsible manner
- operates a retail water and wastewater business
- owns and operates the regulated electricity network and parts of the unregulated electricity network in our licenced areas
- provides electricity, water and sewerage services to remote aboriginal communities and outstations, through its not-for-profit subsidiary, Indigenous Essential Services Pty Ltd (IES Pty Ltd), under agreement with the NTG
- ensures the electricity network is balanced and stable, safe and reliable through its System Control operations and operates the interim electricity market
- manages large scale gas purchase and transportation agreements and sells that gas to Territory Generation and other large businesses across the Northern Territory, and interstate on completion of the Northern Gas Pipeline
- retails electricity to a small number of mining towns, as a result of legacy contracts with the Government
- owns and operates five generation plants in regional areas and sells the electricity to Jacana Energy
- is one of the key responders after a natural disaster, helping the community to restore essential services.



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Power and Water in excess of 94,000 electricity and water customers (including regions and remote customers) and is structured along five lines of business supported by centralised business services.

## Our lines of business

### Power Networks

Power Networks is responsible for planning, building, operating 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 three 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 services in the Northern Territory's five major centres. Water is also supplied in 13 minor centres and sewerage services provided in five minor centres. These services are provided under monopoly licences. Water Services plans, constructs, operates and maintains its assets for the long-term to provide safe, reliable and efficient water and sewerage services.

### 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 Operations is responsible for providing electricity, water and sewerage services to 72 geographically isolated and dispersed Aboriginal communities and 66 outstations, and for 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 Aboriginal employment and training, whilst optimising its cost structure.

### 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 support is provided across the corporation in such areas 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



# Remote 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 our contribution to the Northern Territory economy and the pursuit of the long-term interests of consumers.

Over the SCI period 2018-2022, we will continue to work towards transforming our organisation in line with our vision. 2016-17 saw the commencement of this change with a re-set in strategy and priority areas for the organisation. It was acknowledged that the transformation journey would continue over a number of years.

Power and Water has recently articulated its purpose in the transformation as “enriching the future”. Organisational values have been refreshed, culture and capability initiatives initiated and the strategic framework further refined.

We recognise the need to quickly evolve, giving customers better choices and to be an organisation that is easy to deal with. Key to our SCI is the commitment to become a more accountable organisation which has good risk management and governance practices with simplified systems and processes that leverage the synergies of being a multi-utility. This will be achieved through our people – by having the right culture, leadership and technical capabilities which are aligned to delivering a commercially focused, customer centric organisation while meeting our Shareholder’s expectations.

Critical to realising our goals is the review of our operating model. The operating model project will define how our capabilities, ways of working, business processes and systems are organised so that we can efficiently deliver the best service to customers.

The future continues to bring both challenges and opportunities for Power and Water. Entering the regulatory regime of the National Electricity Rules (NER) in July 2019, with network revenue being set by the Australian Energy Regulator (AER), carries the risk of increased financial pressure. This includes the possible requirement to reduce operational, business services and capital costs beyond those efficiencies already planned in the period. The growing penetration of renewable energy, which is expected to increase significantly over coming years, presents challenges to ensure that the effective integration of renewable energy technologies into the power system does not compromise system security and at the same time, meets our customer expectations.

Also, supporting the Northern Territory’s growth means we must develop water conservation initiatives and review our water source strategies to ensure we continue to provide safe and secure drinking water to residents and to support future economic development.

These challenges make it imperative that we continue to seek business efficiencies and leverage all opportunities where possible, while focusing on our customers. With changing expectations in service and quality from our customers and the broader community, as well as the opportunities and challenges of new technology, we must continually improve our performance and capabilities.



## Strategic framework



## Priority focus areas



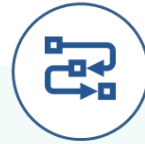
Health and  
safety  
improvement



Operating model



Culture and  
capability



Remediate the ICT  
core systems



Preparing for the  
National  
Electricity Rules

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

### 1. Health and 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. Power and Water is committed to ensuring all workers and contractors are provided with the safest practicable working environment, advice and support in line with achieving our safety goal.

The Health and Safety Improvement Plan 2017-2020, endorsed by the Power and Water Board in 2017, is designed to drive sustained improvement in health and safety performance across a number of key operational and governance areas. This strategy will further embed direction, leadership and accountability into existing health and safety systems in order to enhance and mature our safety culture and governance processes, moving the organisation to a proactive state on the adopted safety maturity model.

Throughout 2017, a wide-ranging review of current systems and governance was undertaken resulting in a refreshed safety management system which better services the needs of the organisation and our contractors. Building and embedding the correct systems, supporting tools and governance as a foundation for culture change is essential and will continue throughout 2018. This will be followed by an ongoing focus on improving personal accountability, attitudes and behaviours into the future and will be measured and validated against proven safety culture maturity model. The end result will be a fit-for-purpose safety management system which is embedded, understood and accessible to our workforce and supported by proactive safety behaviours and values.

A key success factor for this project is to ensure that our employees and contractors are actively engaged into our health and safety aspirations and culture journey through effective consultation and communication processes. Tracking our safety performance will also be enhanced through a suite of new health and safety performance lead indicators which have been established to ensure that our safety culture and systems are effective and achieving the targeted outcomes.

This project comes with the highest executive commitment and will result in reduced incident and injury frequency and severity, simplified safety systems and a workforce that is actively engaged with a proactive health and safety culture.

### 2. Operating Model

Power and Water's operating environment is undergoing significant change impacted by new technologies, new business entrants and service models, changing customer and community expectations, changing energy regulation and rising costs. Power and Water is focused on responding to these challenges, leveraging opportunities and maximising multi-utility synergies to improve efficiency, keeping downward pressure on cost-to-serve and enhancing core services to customers.

An operating model that is aligned to our strategic objectives is the blueprint for longer term transformation, guiding us on how to efficiently and effectively organise our business structure, improve our systems and streamline processes to deliver value to our customers and Shareholder. The detailed design phase commenced in February 2018 and has three key goals:

- **Greater simplicity** by removing duplication, clarifying roles and streamlining support services for more focused delivery of services to our customers.
- **Sharper customer focus** by enabling a more consistent front-line customer experience and integrated business functions for a better service.
- **Thinking differently and working together** by removing silos and encouraging collaboration, sharing knowledge and creating new career opportunities.

Implementation of the operating model blueprint is expected to span out to 2022.

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### 3. Culture, leadership and capability

Having the right culture, leadership and capability is critical to becoming a high performing, commercially focused and customer centric organisation. This program is focused on developing a positive and constructive culture and having the right capabilities to allow us to achieve the goals we have set ourselves.

Embedding a more constructive and positive culture through developing our leaders and building a confident, capable and forward-looking workforce focussed on customer needs, is essential. The implementation of targeted culture change initiatives began in 2017 with the reset of our values, establishing an organisation culture baseline, engaging with employees on what this means, undertaking leadership development and management coaching and implementing an employee self-development program during 2018.

Capability is essential to building a high performance culture that includes a diverse and accountable workforce that can drive business effectiveness. Work has begun to identify areas across the business where increased skills and further training are needed. We are also working towards implementing a holistic performance management and employee development system.

The primary aims of these programs are to achieve the following outcomes:

- leaders who lead by example promoting accountability, motivating their teams to thrive and perform at their best
- a flexible, proactive and constructive culture with people who understand the importance of our customers and stakeholders, are accountable, effectively manage our assets and understand the need for continuous improvement
- improved customer focus in the way we conduct our business
- improved financial and commercial acumen across the organisation, resulting in improved financial outcomes
- greater diversity and optimal people management, to enable Power and Water to attract and retain capable and talented people who are aligned to our values.

### 4. Remediate the core systems

The Remediate the Core (RTC) program was initiated in 2017 with a primary goal of improving core ICT systems to enable an effective and efficient organisation, in particular delivering simple, robust, standardised and fit-for-purpose systems which better support operational decision making, enable business efficiencies and ultimately improve customer service and cost of service delivery. This project aims to implement the systems component of the process and technology plan aligned to the 'Operating Model'.

The Power and Water systems have become inefficient over the years primarily as a result of excessive customisation and process duplication across multiple systems. The RTC systems program will achieve significant efficiencies both from ICT operating costs (including licensing and support) and by enabling process efficiencies from areas such as upgraded mobile data management and asset management systems.

The program supports the other priority projects and will also provide the flexibility for future process changes to be incorporated with minimal incremental cost of implementation. The key outcomes of the program are:

- redesign the process and system for data management, storage and retrieval
- ensure all business systems are updated, with minimal customisations utilising functionality available in the key systems and eliminating duplicate functionality
- ensure cyber security risks are understood and minimised
- identify emerging technologies and consider their potential future impact
- enable more efficient management of data collection and processing through improved data mobility platforms.

The program began in 2017 and has progressed during 2017-18 with the successful completion of the system integration (middleware) project which makes the utilisation of common data across multiple corporate systems more reliable and efficient. Several redundant minor systems were also successfully shut down. The first phase of a key project which identifies the data used across all of Power and Water, and establishes protocols and processes to effectively manage that data, was also completed. This project will allow data to be used more confidently across the business leading to improved business and operational actions for the benefit of our customers.

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The next phase of Remediate the Core will involve reviewing the geographical information systems and mobility functionality used across all operating areas, and planning for an upgrade and consolidation of these systems. This is designed to improve the reliability, accessibility and utilisation of our geospatial data, which includes the location and details of our assets and services.

The overall program of work will continue through to 2020 with the detailed implementation plan past December 2018 being subject to the output from other priority projects, primarily the Operating Model project.

## **5. Transition to the National Electricity Rules**

The Northern Territory Government (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 the Northern Territory adaptation of the National Electricity Rules (NT NER) which will be administered by the Australian Energy Regulator (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 every five years.

On 31 January 2018, Power and Water submitted its first draft regulatory proposal to the AER for the period 1 July 2019 to 30 June 2024. The regulatory proposal contains Power and Water's proposed operational and capital expenditure for this period, its tariff strategy, its connection policies and a range of other documents designed to demonstrate compliance with the NT NER. The proposal was published on the AER website on 16 February 2018.

The regulatory proposal was developed following extensive consultation with customers and market participants, through a range of mechanisms such as one-on-one interviews, customer focus groups, deliberative forums, consultation papers and the creation of a specialist external council of interested stakeholders from across the NT. The overarching intent of the proposal is to maintain service standards across the three isolated regulated electricity networks, while targeting service level improvements in under-performing areas and ensuring the lowest possible price for our customers.

The proposed tariff strategy aims to modernise network tariffs. Together with the proposed smart meter roll-out policy for all new and replacement meters, it will provide customers with the opportunity to better manage their electricity use and take advantage of new technologies and potential future retail service offerings, consistent with emerging industry standards and consumer expectations.

The NT NER also contains a number of incentive and penalty schemes designed to ensure Power and Water not only operates within the parameters of its approved plan for the five year period, but actively seeks to improve its operations and its overall efficiencies. Any benefits earned under these schemes are shared between Power and Water and its customers. The AER will release its draft decision in September 2018. At this point, Power and Water will have the opportunity to refine the proposal before the AER makes its final determination by April 2019.

Moving to the new regulatory regime will drive Power and Water's focus on implementing sustainable improvements to power network operating efficiencies, cost structure and capital investment program for the benefit of our customers. Power and Water remains focused on the orderly and cost effective transition to full compliance in line with the NT NER.

## Key performance indicators

		2017-18 SCI	2017-18 Forecast <sup>20</sup>	2018-19 Budget	2019-20 Target	2020-21 Target	2021-22 Target
<b>Health and safety</b>							
Health and safety index <sup>1</sup>	%	80	35 *	80	80	85	90
<b>People and culture</b>							
Employee engagement survey <sup>2</sup>	%	> 70	67 #	70	72	74	76
Organisation culture index <sup>3</sup>	%	+15	63 baseline	+15	+15	+15	+15
Aboriginal employment <sup>4</sup>	Headcount	81	53 *	78	87	97	105
<b>Financial performance</b>							
Return on capital employed <sup>5</sup>	%	> 4.0	3.0	> 4.0	> 4.0	> 4.0	> 4.0
Infrastructure return on capital employed <sup>21</sup>	%	New	3.4	> 5.0	> 5.0	> 5.0	> 5.0
Debt to equity ratio <sup>6</sup>	Times	< 1.0	1.2	< 1.3	< 1.3	< 1.3	< 1.3
Funds from operations to interest <sup>7</sup>	Times	> 3.0	3.9	> 3.0	> 3.0	> 3.0	> 3.0
Liquidity (Quick ratio) <sup>8</sup>	Times	> 1.0	1.3	> 1.0	> 1.0	> 1.0	> 1.0
Statutory net profit after tax <sup>9</sup>	\$M	> 26.4	32.5	> SCI	> SCI	> SCI	> SCI
Underlying earnings before interest, tax, depn, amortn <sup>10</sup>	\$M	New	216.5	> SCI	> SCI	> SCI	> SCI
Operating cost efficiency <sup>11</sup>	%	< 50	53	< 50	< 50	< 50	< 50
Operating cost ratio <sup>12</sup>	%	< 100	103	< 100	< 100	< 100	< 100
<b>Operational performance</b>							
System avg interruption duration index (NT system) <sup>13</sup>	Min	194.7	215.2 *	212.1	212.1	212.1	212.1
System avg interruption frequency index (NT system) <sup>13</sup>	No.	3.4	2.7 *	2.6	2.6	2.6	2.6
Water demand Darwin per household <sup>14</sup>	kL	394	376 *	389	384	378	372
Water mains breaks per 100 km <sup>15</sup>	No.	14	15 *	14	13	13	12
Sewerage chokes and blockages per 100 km <sup>16</sup>	No.	24	12 *	23	22	21	20
Wastewater treatment plant discharges are licensed <sup>17</sup>	%	100	100 *	100	100	100	100
<b>Customer</b>							
Customer satisfaction index <sup>18</sup>	Residential / Non-residential %	80	80 #	80	80	80	80
Complaints resolved <sup>19</sup>	Average business days	14	13 *	14	12	11	10

All targets reflect PWC unconsolidated.

<sup>1</sup> **Health and safety index:** Reflects a composite measure of 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 employees based on survey respondents measured annually.

<sup>3</sup> **Organisation culture index:** Targeted improvement is an aggregate percentage increase in constructive behaviours for preferred styles each year. An organisational culture survey was 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> **Aboriginal employment:** Number of employees identifying as Aboriginal (permanent and fixed term, excluding contractors) as at 30 June each year.

<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.

<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 excluding short-term debt.

<sup>9</sup> **Statutory net profit after tax (NPAT):** In line with Statutory Accounts.

<sup>10</sup> **Underlying earnings before interest, tax, depreciation and amortisation (EBITDA):** Total revenue less total operating expenditure excluding non-cash impairments.

<sup>11</sup> **Operating cost efficiency:** Operating costs excluding depreciation, amortisation, impairments, interest, tax and gas costs / Revenue excluding gas revenue.

<sup>12</sup> **Operating cost ratio:** Current year Opex / 2016-17 base level Opex. Measure of adoption of efficiencies to maintain total Opex at the same level as total Opex in the 2016-17 base year by absorbing inflation impacts. Opex excludes depreciation, amortisation, impairments, interest, tax and gas costs.

<sup>13</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 from 2019-20 onwards are yet to be set by the Australian Energy Regulator.

<sup>14</sup> **Water demand per household:** Rolling 12 month average for Darwin households.

<sup>15</sup> **Water mains breaks:** Number of breaks per 100km Darwin and Alice Springs.

<sup>16</sup> **Sewerage chokes and blockages:** Number of chokes and blockages per 100km Darwin and Alice Springs.

<sup>17</sup> **Wastewater treatment plant discharges:** All wastewater treatment plants are licensed or have a current licence submission.

<sup>18</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>19</sup> **Complaints resolved:** Average number of business days taken to resolve customer complaints.

<sup>20</sup> **Forecast:** Financial forecast reflects the draft 2017-18 forecast prepared February 2018 based on year-to-date actuals to 31 December 2017 adjusted for latest projection of non-cash impairment charges and capital expenditure. \* Actual at 28 February 2018. # Prior year's outcome as 2017-18 outcome not available.

<sup>21</sup> **Infrastructure return on capital employed (ROCE):** Power Networks and Water Services EBIT/Capital Employed where EBIT = Taxed earnings before interest and tax adjusted for non-cash impairments and depreciation calculated using Depreciated Replacement Cost for Power Networks and Water Services infrastructure asset valuations; and Capital Employed = Equity adjusted for infrastructure assets also at Depreciated Replacement Cost + Borrowings.

# Power Networks



## Strategic overview

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

Underlying the successful provision of these services is the ongoing improvement in our safety focus, customer focus, organisational culture, leadership and other capabilities, governance and management – financial, asset, risk. This is driven by efficient and effective organisational structure, processes, systems and technology, which are the focus of Power and Water’s key priority areas.

The applicable provisions of 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. This precedes the phased adoption of the NER under the Australian Energy regulator (AER) from 1 July 2019. This industry reform, along with the increase in renewable energy in line with NTG’s objective of a 50 per cent renewable energy target by 2030, the changing expectations among customers and the community, will be challenging. These challenges continue to drive us towards deploying new and more efficient ways of providing our services, maintaining performance and growing our capabilities.

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. Power Networks’ focus has been on securing an appropriate network revenue determination from the AER for the five year period from July 2019 to June 2024. Following extensive consultation with customers and market participants, Power Networks submitted its first draft regulatory proposal to the AER on 31 January 2018. The AER will release its draft distribution determination in September 2018 and make its final determination by April 2019.

The regulatory proposal has been developed to not only support efficient electricity prices for Northern Territory consumers, but to also enable the ongoing renewal and investment in electricity network assets along with an appropriate financial return on capital invested. Moving to the new regulatory regime will support the focus on proactively maintaining service standards across the three isolated regulated electricity networks while targeting service level improvements in under-performing areas, as well as driving sustainable improvements to the operating cost structure and capital investment. However, the setting of network revenue by the AER carries the risk of increased financial pressure including the possible requirement to reduce operational, business services and capital costs beyond those efficiencies already planned.

Power Networks is progressing down the path of major change to reach a sustainable commercial footing and to become a more customer centric business. Changing expectations among our customers and the community mean we must improve our performance and capabilities to meet these challenges. The initial focus is on fixing the fundamentals in systems and processes to enable efficiency and optimisation of our resources, in addition to building core capabilities in leadership, commercial acumen and asset management.

## Key strategies and initiatives

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

- **Improved safety culture and accountability** – implementation of a safety cultural program and re-setting our safety management framework.
- **Preparation for 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 five year 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.
- **Customer centric service delivery model** – implementation of customer and stakeholder engagement strategies and establishment of a customer care group.
- **Developing capability to enable distributed energy resources and meet future customer requirements** – including actively engaging with customers and facilitating the connection of large and small scale renewable energy resources, and enabling solutions such as smart meters.
- **Development of our Strategic Asset Management Plan** – working towards practices in line with International Standards in Asset Management (ISO 55000) and to improve business efficiency to meet stakeholders' needs.
- **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.

## Capital investment program

The Power Networks capital investment program is developed through assessing its capabilities to deliver services, as outlined by the planning criteria and Electricity Standards of Services, against the forecast need. This includes meeting growing local demand as well as asset replacement to maintain current services standards. The endorsed program of capital investment is based on the 2014 Network Price Determination submission to the Utilities Commission, refined as appropriate to manage emerging risk, and the AER Distribution Determination submission for the period 2019 to 2024. This program has been accounted for in the 2018-19 SCI, including the risks and resource capability to deliver these projects on time and within budget. The capital investment program for Power Networks totals \$287.5 million over the four-year SCI period of which \$52.6 million is included in the 2018-19 budget.

Major projects include:

- replacement of the Berrimah zone substation
- distribution pole replacement program, Alice Springs
- installation of a 11kV switchboard, Alice Springs
- replace 66kV and 22kV Pine Creek Zone Substation assets.

Other significant capital expenditure relates to the ongoing asset renewal and augmentation programs that form part of Power Networks asset management plans, such as:

- high voltage cable replacement program
- connections program
- metering program, fleet program
- condition and failure based asset replacement program
- IT and communication systems.

## Financial summary

POWER NETWORKS	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	196.3	193.3	196.1	195.2	203.4	211.4
Operating costs	112.7	108.3	102.9	94.3	90.3	92.8
Earnings before interest, tax, depreciation and amortisation	83.7	85.1	93.2	100.9	113.1	118.6
Net profit after tax	6.0	12.6	20.6	23.1	30.6	31.3
Capital expenditure	55.5	46.2	52.6	81.3	75.5	78.1

# Water Services



## Strategic overview

Water Services is accountable for providing safe, reliable and efficient water and sewerage services in most urban areas across the Northern Territory.

The economic prosperity of the Northern Territory and the wellbeing of its residents is dependent on the long term sustainability of water sources, storage, treatment and delivery infrastructure. Our strategies are focussed on becoming a commercially sustainable and customer centric organisation. To achieve this will require an ongoing focus on the 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 safe drinking water now and into the future. Water quality assurance is being strengthened through the enhancement of a drinking water quality management system aligned with the Australian Drinking Water Guidelines. This work will continue into 2018-19. PFAS related water contamination in 2017 saw Water Services work closely with the affected Katherine community and government agencies, to implement solutions to provide a safe and sufficient supply of drinking water.

The provision of effective and efficient sewerage treatment and disposal is also a key focus for Water Services. Responding to community concerns, work was accelerated during 2017 to reduce odours emanating from the Leanyer Sanderson Wastewater Treatment Plant in the short term with longer-term options put in place. This immediate response is paramount to meeting our changing customers' expectations into the future.

Water consumption in the Northern Territory is excessively high when compared with other Australian States or Territories. Darwin's usage of water per person is more than twice that of other places with similar climates, such as Cairns. Better utilisation of existing water sources is essential. Further growth within the Northern Territory will eventually require major investment in water sources, either in the form of augmenting existing water sources or developing a new water supply source and associated infrastructure.

Better water demand management has the potential to defer major water infrastructure investment. Power and Water's ongoing 'Living Water Smart' program will continue into 2018-19, seeking to drive further water conservation and efficiency across Darwin and surrounding regions by targeting large water users, including local councils and Government departments, and working with customers to help identify and realise significant water saving opportunities.

Water services will continue to plan and develop solutions in consultation with the NTG. Future water supply options are considered as part of the Darwin Region Water Supply Strategy. In Alice Springs, groundwater investigations of existing aquifers are continuing to ensure a sustainable and safe supply. This forms part of a water supply contingency, in the event that demand management does not meet expectations or additional population growth exceeds the current predictions. The ability to fund major investment in the longer term requires improvement of Power and Water's financial position and continued liaison with the NTG in relation to future funding options.



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Underlying the successful provision of these services is the ongoing improvement in our safety focus, customer focus, organisational culture, leadership and other capabilities, governance and management – financial, asset, risk. This is driven by efficient and effective organisational structure, processes, systems and technology, which are the focus of Power and Water’s key priority areas.

## Key strategies and initiatives

Water Services’ focus is aligned to the achievement of the corporation’s goals with particular emphasis on:

- **Water Quality and Environment:**
  - Manage the delivery of safe drinking water in alignment with the Australian Drinking Water Guidelines through improved water quality management systems and reporting.
  - Ensure waste water treatment and discharges to the environment comply with regulatory requirements, minimise environmental impacts and realise the benefits of sound environmental practices.
- **Asset Performance:**
  - Management of water and sewerage infrastructure to service planned growth in all sectors, in particular, the planning for the augmentation of the Darwin region’s water supply sources.
  - Alleviating the impacts of increasing water demand through active programs for conserving water and managing demand and the targeted changing of community behaviours.
  - Improve the management and operation of water and sewerage assets through Strategic Asset Management Plan based on ISO 55000 and the exploitation of remediated asset management systems through changes in policy, procedures and reporting. Examine the level of services to determine the appropriate service standard for major and minor centres.
- **Commercial Sustainability:**
  - Improve financial performance through the implementation of business improvement measures for best practice, efficiency and revenue.
  - Enable a path of tariff reform whilst continuing to reduce costs and improve productivity.
  - Ensure that capital investment is necessary and sufficient through a rigorous prioritisation assessment.
  - Development of protocols and processes to strengthen risk management and decision making to ensure alignment with acceptable risk levels.
- **Culture and Capability:**
  - Development of a workforce with strong values and adaptive resilience to deliver the required level of service and achieve the targeted business performance.
  - Maintain 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 improving our business performance and in better understand the community’s expectations.

## Capital investment program

The capital investment program for the Water Services business unit totals \$204.6 million over the four-year SCI period of which \$53.3 million is included in the 2018-19 budget.

### Water

The proposed water capital program is focused on delivering improvements and renewal of assets to increase water supply security and network reliability. The capital program totals \$119.3 million over the four-year SCI period of which \$31.4 million is included in the 2018-19 SCI budget. Based on an analysis of risk, the 2018-19 capital program includes:

- Renewal/Replacement:** Upgrade of current asset infrastructure to meet optimum levels of service.  
 Works are planned to improve the reliability of the distribution system across the Northern Territory through water main, service and meter replacement programs and various other water reticulation improvements. Work will commence on the multi-year upgrade to the Tennant Creek borefields.
- Growth:** New infrastructure to service planned growth.  
 Planning continues for the implementation of the major projects in line with the Darwin Region Water Supply Strategy including the development of new water sources to support Northern Territory future growth. Interim works to address the water pressure and supply requirements associated with the developing Berrimah Farm area will be progressed.
- Extensions:** Extend services into non-serviced areas and upgrade capacity to meet new developments.  
 The next stage in the ongoing upgrade of the Darwin River Dam pump station continues with the installation of the required pipework.
- Service Improvement:** Improve the efficiency of service delivery.  
 The next stage of projects associated with the water quality Disinfection Reliability Strategy will be undertaken. Upgrades to the water quality management system will be progressively made to water treatment, delivery and monitoring systems in line with Australian Drinking Water Guidelines.  
  
 The Katherine Water Supply Source Augmentation program will result in a number of projects to improve the delivery of safe and reliable water supply to the community. Upgrades are planned for supply sources at Adelaide River and Batchelor which will ensure supply and improve service delivery. A number of measures are being taken as part of the strategy for reducing water leakage and loss in Alice Springs and Darwin including a customer meter replacement program and smart meter trials.

## Sewerage

The proposed sewerage capital program is focused on delivering capacity improvements to meet increased demand and compliance requirements. The capital program totals \$85.3 million over the four year SCI period of which \$21.9 million is included in the 2018-19 SCI budget. Based on an analysis of risk, the 2018-19 capital program includes:

- Renewal/Replacement:** Upgrade of current asset infrastructure to meet optimum levels of service.  
 Works are planned to improve the reliability of the distribution and treatment system across the Northern Territory through sewer main relining, pump replacement and de-sludging programs, and other sewer reticulation improvements.
- Extensions:** Extend services into non-serviced areas and upgrade capacity to meet new developments.  
 Major development in Palmerston has necessitated the upgrade of the Palmerston East trunk sewer. This work began in 2017-18 and will be completed in 2018-19.
- Service Improvement:** Improve the efficiency of service delivery.  
 Planning continues for the inlet works to the Ludmilla Wastewater Treatment Plant. Additional odour mitigation works at the Leanyer Sanderson Wastewater Treatment Plant are planned to meet our customer's expectations.
- Compliance:** Meet increased regulatory and licencing requirements.  
 Inlet works at the Leanyer Sanderson waste stabilisation ponds will be completed and further augmentation works commenced to support compliance with discharge licence conditions. Planning for the East Point outfall extension will also continue.

## Financial summary

WATER SERVICES	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	223.0	219.7	219.0	222.3	232.4	239.7
Operating costs	94.7	84.8	88.5	87.3	86.9	87.5
Earnings before interest, tax, depreciation and amortisation	128.2	134.9	130.5	135.1	145.5	152.2
Net profit after tax	46.0	31.1	30.6	34.0	43.0	46.6
Capital expenditure	66.4	64.8	53.3	41.7	43.5	66.1

# 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 also to ensure 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 (NGP). A new trading name for the commercial gas unit will be launched during 2018 to allow Power and Water to establish a stronger presence in the commercial gas market, particularly as it looks at new opportunities in the east coast market after construction of the NGP.

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 plan for 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 in late 2018. 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 in securing future gas resources and gas transmission systems to meet growing gas demand to support the development of the Northern Territory economy, will be underpinned by playing a strategic role in providing technical and commercial expertise and advice to government agencies. 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 of both pricing and volume from as yet unsecured sales contracts, is a risk to Power and Water's 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 Water's gas sales strategy is designed with the intention of ensuring all costs are covered by revenue and any risks are appropriately mitigated.

Other key risks which could, or are likely to, have a material impact on gas operations in the medium to long term, include:

- 
- the displacement of gas fired generation by alternative technologies thus reducing demand for gas in the NT power generation market
  - the cost of transportation into the East Coast market which could impact the competitiveness of NT gas
  - proposed regulatory reforms which could adversely affect Power and Water's position in the NT gas market.

## Key strategies and initiatives

The focus of the Gas Supply unit is aligned to the achievement of the corporation's goals, including the key priority focus areas, 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 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 \$25.5 million over the four-year SCI period of which \$5.4 million is included in the 2018-19 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.

# 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 Aboriginal 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 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 (which supplements the tariff based revenue collections), and for the 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 requirements 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 leakage in communities with limited available water supplies. Necessary and significant NTG investment into remote Aboriginal communities places additional pressure on these existing services, particularly the \$1.1 billion Remote Housing Program which will require support for land servicing and additional infrastructure investment.

Stakeholders have rising expectations for improved levels of service and regional capability. Land access requirements of 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 are appropriate levels of funding to deliver the necessary services. The DHCD has a lead role in undertaking these functions, as informed by Regions and Remote Operations. NTG objectives such as the 50 per cent renewable energy target by 2030, Aboriginal employment targets and the Remote Housing Program present challenges and opportunities, and require active support by Regions and Remote Operations under the direction, leadership and funding from the DHCD.

Regions and Remote Operations will, over the next four years, engage with the NTG through the DHCD on the 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, as well as pursuing opportunities for collaboration with Australian Government, NTG agencies and Aboriginal organisations to implement improved technologies, reduce costs and enhance local service delivery capability for whole-of-government.

Regions and Remote Operations has an emerging Aboriginal inclusive employment and contracting practice to provide 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 safely operate, monitor and service infrastructure.

Underlying the successful provision of these services is the ongoing improvement in our customer focus, safety, culture, leadership and other capabilities, governance and management – financial, asset, risk. This is driven by efficient and effective organisational structure, processes, systems and technology, which are the focus of Power and Water's key priority areas.

## Key strategies and initiatives

Regions and Remote Operations focus is aligned to the achievement of the corporation's goals with particular emphasis on:

- **Working with the DHCD to continuously improve the IES Pty Ltd governing and funding agreement** to manage risks, operational and legal gaps; adding value and improving the alignment of service requirements to available funding.
- **Optimising the safe delivery of services** through improved essential service operator commercial arrangements and accountabilities, effective participation in the Safety Management Improvement Program of activities and through continued investment in remote monitoring and controls through satellite and 3G telemetry SCADA systems.
- **Ongoing implementation of the water source and quality strategy**, including:
  - managing water quality assurance in line with the Australian Drinking Water Guidelines to continually reassess water source sustainability, including demand management strategies for critically water stressed communities
  - delivering on the requirements for a robust ongoing water quality management system.
- **Ongoing implementation of the energy strategy** to maintain a cost efficient supply considering capital and operational expenses including:
  - installing further solar plants and proving of battery storage and systems for future potential developments
  - electricity grid connections to replace ageing diesel power stations and replace diesel fuel with solar and gas
  - upgrading old electricity metering technology in all communities with new prepayment meters which can be read remotely, 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 to comply with environmental regulation.
- **Optimising asset management** through effective participation in the 'Remediate the Core' program, targeted structural, process and data improvements, and improved asset life and replacement planning and funding, to effectively deliver on the Regions and Remote Operations Strategic Asset Management Plan. This will contribute to accurately documenting the augmentation and replacement needs in delivering power, water and sewerage services to ensure stakeholders have accurate and reliable data on which to base their funding decisions upon.
- **Supporting the NTG Housing Program** through participation in program governance and coordination forums and by building and resourcing a land servicing team focussed on the program's core deliverables.

## Capital investment program

The Regions and Remote Operations current capital investment program is primarily aimed at economic asset renewal, delivering strategic initiatives and transitioning to new technologies, particularly solar technologies. Most new capacity growth is expected to result from the implementation of the NTG Housing Program, and the DHCD as the developer, will retain responsibility for the separate funding of such infrastructure enhancements. The capital investment program totals \$95.3 million over the four-year SCI period for IES of which \$37.3 million is included in the 2018-19 budget.

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

- **Solar SETuP program** involves the large installation of 10 MW of solar systems across 30 remote communities, with 94 million litres of diesel savings forecast over 25 years. Tranche 1 (ten communities) was successfully completed during 2017. Tranche 2 is underway and is expected to be completed in the first half of 2019.
- **Grid connection initiative to Nganmarriyanga (Palumpa) and Peppimenarti** is proposed to use available gas generation capacity instead of diesel and mitigate the need to renew the ageing diesel plants. This project has been deferred from earlier plans through difficult and extensive access approvals and is now forecast within this SCI subject to approval.
- **Grid connection initiative between Tiwi Island communities** is proposed to replace ageing generation and electrical infrastructure, and optimise solar delivery on the island from a single site.
- **Upgrade and deliver water treatment plant redundancy capabilities**, implementing a program of disinfection barrier improvements across most IES communities within the NT including appropriate remote monitoring over three years.

Other priority projects include:

- numerous major and minor recurrent investment programs to mitigate key risks with ageing infrastructure through a new major recurrent funding stream and the ongoing minor asset replacement recurrent fund
- connecting an enhanced ground water source to improve water quality outcomes at Pirlangimpi in the Tiwi Islands
- generation plant replacement programs which optimise solar through low load diesel technologies and optimise costs through sustaining capital trade ups, instead of investing in expensive midlife refurbishments
- final resolution of water transmission concerns at Laramba and gas chlorination initiatives at Galiwinku and Numbulwar
- connecting a ground water source to supplement Manthape water supplies
- ongoing joint assessment with the DHCD on the impacts of the NTG's Remote Housing Program on the augmentation and replacement of IES infrastructure and aligning internal planned works programs where practical. Capital costs for major works to remove capacity restraints where necessary, are not included in this SCI but are expected to be funded by the DHCD.

Separately, in consultation with the DHCD, we will assess options and carryout development and design activities for the next agreed priority asset infrastructure improvements. DHCD has separate funding available to progress major asset renewals on behalf of IES and provide as gifted assets.

## Financial summary

REGIONS AND REMOTE OPERATIONS	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	168.3	146.1	137.5	129.5	132.4	137.1
Operating costs	92.1	90.7	97.6	99.3	104.4	106.6
Earnings before interest, tax, depreciation and amortisation	76.2	55.5	39.9	30.2	28.0	30.5
Net profit after tax	18.1	8.2	(1.5)	(10.7)	(12.1)	(9.0)
Capital expenditure	69.4	65.7	37.3	18.4	18.9	20.7

Revenue includes gifted assets from DHCD in 2018-19 of \$5.0 million and \$26.0 million over the four year SCI period. These gifted assets are not funded by grants and are not included in capital expenditure.

# 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 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. There is an opportunity to further develop internal resources to meet the additional accountabilities related to market operation and associated reporting. 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. System Control is seeking to improve its revenue via market participant fees and charges payable for the wholesale electricity market operator function.

System Control has made significant improvements to date ensuring a high level of system security with one 'single contingency' under frequency load shed event in the three years to December 2017. Our focus is to continue building on these service improvements and to manage system security affected by the existing generation and network infrastructure configuration and maintenance requirements. The use of solar energy is expected to increase significantly over coming years supported by the NTG's objective of a 50 per cent renewable energy target by 2030. This presents opportunities to influence the effective integration of renewable energy technologies into the power system in a way which 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 its present layout and capacity. Options to improve the present environment, while exploring opportunities to provide these services more efficiently from an alternative location, is a focus for the future.

Underlying the successful ongoing provision of system control and market services is the improvement in our culture, financial management, risk management, governance and customer focus. A strong customer focus and the use of technology is key to ensure a continuing high level of service delivery including improved response times for faults and outages and improved information to customers and participants. This is driven by an efficient and effective organisational structure, processes, systems and technology which are the focus of Power and Water's key priority areas.



## Key strategies and initiatives

System Control focus is aligned to the achievement of the corporation's goals with particular emphasis on:

- **Supporting the achievement of the NTG 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. System Control will continue working with government agencies throughout the implementation of the Roadmap to Renewables, to ensure a smooth transition to a higher penetration of renewable energy without compromising system security.
- **Ancillary services** specifying and delineating ancillary services to facilitate the unbundling of charges from the wholesale energy tariff. This will also include the technical implementation of the newly defined services to allow the Darwin – Katherine Power System to be operated with clearer technical guidelines and structure regarding ancillary services.
- **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. System Control will continue to provide technical support to the Department of Treasury and Finance as the NTEM is defined and developed.
  - **Dynamic Modelling of the Northern Territory Regulated Power Systems:** System Control will oversee a major project to develop and update the Dynamic Power System models used in the NT. This project, jointly funded by the Department of the Chief Minister, will act as a key enabler for achieving the Roadmap to Renewables target by directing the requirements placed upon new energy proponents, to ensure system security and reliability is maintained throughout the transition.
- **Pricing Determination:** System Control will continue to review the costing and funding arrangements and work with the Utilities Commission and the Department of Treasury and Finance.
- **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. System Control will continue to undertake risk and system analysis following system events to ensure a continually improving standard of reliability and security.
- **System Control Operational Tools (Stage 2):** System Control is in the process of further developing and modernising the tools and systems used in logging and monitoring the power system in line with the corporation's 'Remediate the Core' project. This work will allow more consistent recording of operational information, and a clearer level of information to be available to facilitate the decision making processes when operating the power system.
- **Managing Alice Springs and Tennant Creek Regulatory Control Transfer (Harmonisation Stage 2)** to improve the technical effectiveness of the network for security constrained economic dispatch. This will include the development of the appropriate processes and procedures to support the control room in both the transition and ongoing operations. System Control will work with Territory Generation and other system participants as required, ensuring a smooth transfer of functions.

## Financial summary

SYSTEM CONTROL	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	4.5	4.4	4.6	4.7	4.8	4.9
Operating costs	8.0	7.1	7.9	8.1	8.4	8.8
Earnings before interest, tax, depreciation and amortisation	(3.5)	(2.7)	(3.3)	(3.4)	(3.6)	(3.8)
Net profit after tax	(3.9)	(1.9)	(2.3)	(2.4)	(2.5)	(2.7)
Capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0

# 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.

It also provides central support services and brings together different elements which drive efficiencies in service provision across the business. These services include:

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

Business Services is a key enabler to Power and Water's success in achieving the goals of becoming an accountable organisation which 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 support the wider business and enable the achievement of the corporation's goals, including the key priority focus areas, with particular emphasis on:

- **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** to align our processes and systems to remove unnecessary complexity and to improve business efficiency, customer support, decision support and asset management while 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, strategies for Aboriginal employment and diversity, workforce planning, effective training delivery model and nurturing high engagement throughout the organisation.
- **Establish a capability program** with the immediate focus on leadership, asset management and commercial capability programs.
- **Risk management maturity strategy** implementation.
- **Environment strategy** implementation.
- **Drive procurement savings across Power and Water** by establishing a procurement reform strategy and realising savings through more strategic sourcing options including insurance portfolio costs.
- **Enhance the customer experience** by strengthening Power and Water's brand in the community and establishing 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 and leveraging a digital engagement platform to better understand and serve our customers.
- **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.
- **Negotiate a new Enterprise Agreement.**
- **Develop a funding plan** with the focus on Water Services.
- **Drive improvement in organisational strategic planning** including our reporting framework and planning capability.
- **Continuing focus on financial improvement**, particularly on fixed assets, strengthening capability and competency improving the effectiveness of the control framework.
- **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 plan.**
- **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 \$72.2 million over the four-year SCI period of which \$14.0 million is included in the 2018-19 budget.

A significant amount of this capital relates to improving core ICT systems aligned to the Operating Model, in particular delivering fit-for-purpose systems which better support operational decision making, enable business efficiencies and improve customer service. This includes the following major capital projects:

- Asset management system upgrade (Maximo system)
- Data as an Enterprise Asset project
- Mobility solutions; SCADA consolidation
- Retail management system upgrade

Other capital expenditure includes:

- Corporate systems licence upgrade; Server replacement program
- Minor works program
- Project management and reporting software
- Management governance and assurance framework system
- Fire alarm and electronic detection system upgrades

## Financial summary

BUSINESS SERVICES	2017-18 BUDGET	2017-18 FORECAST	2018-19 BUDGET	2019-20 PROJECTION	2020-21 PROJECTION	2021-22 PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Revenue	9.6	10.1	7.4	7.6	2.7	2.9
Operating costs (after allocations to business units)	9.6	10.2	7.4	7.6	7.7	7.9
Earnings before interest, tax, depreciation and amortisation	0.0	(0.0)	0.0	0.0	(5.0)	(5.0)
Net profit after tax	0.0	(0.0)	0.0	0.0	(3.5)	(3.5)
Capital expenditure	18.0	11.0	14.0	22.2	17.3	18.7

# Financial projections

## Financial summary

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

SUMMARY OF FINANCIAL RESULTS		2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
		BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
Total revenue	\$M	664.5	617.6	686.1	739.5	746.3	769.6
Earnings before interest, tax and depreciation	\$M	187.3	211.5	219.5	233.2	252.5	263.3
Earnings before interest and tax	\$M	83.5	93.5	114.6	134.0	152.4	163.3
Net profit after tax	\$M	26.4	32.5	43.8	52.3	66.2	69.2
Operating cost efficiency	%	71.3	52.9	53.8	47.4	45.6	45.0
Operating cost ratio	%	109.0	102.9	101.1	97.2	94.8	96.8
Cashflow from operations	\$M	94.4	51.3	89.4	163.8	163.7	166.3
Capital investment	\$M	147.4	127.0	132.8	155.4	140.5	161.2
Return on capital employed	%	1.9	3.0	3.6	4.3	4.7	5.1
Infrastructure return on capital employed	%	NA	3.4	4.1	4.8	5.1	5.4
Funds from operations to interest ratio	times	3.3	3.9	3.4	3.7	3.9	3.6
Debt to equity ratio	times	1.3	1.2	1.2	1.2	1.2	1.2
Quick ratio	times	1.6	1.3	1.5	1.2	1.0	0.9

Note: Excludes Regions and Remote Operations.

## Revenue

Compared to the 2017-18 budget, forecast revenue for that year is lower by \$46.9 million, primarily as a result of lower than budgeted gas revenue as a result of a delay in securing new or ramping up existing gas supply contracts. Total revenue is projected to increase from \$617.6 million in 2017-18 to \$686.1 million in 2018-19. Core water and sewerage services revenue is assumed to increase in line with CPI over each year of the SCI on the assumption of minimal population growth with electricity revenue aligned with the recent submission to the AER in 2019-20 and beyond. However, there is considerable uncertainty about Power Networks revenue in 2019-20 and 2020-21 due to the AER processes for determining the revenue cap, and the draft response by the AER to the initial Regulatory Proposal submission, which will not be known until September 2018.

Gas revenue is forecast to increase by 45% from 2017-18 to 2018-19 and then increase significantly in each subsequent year of the SCI period as new gas customers come online over the course of 2018-19 and beyond, benefiting from the completion of the Northern gas pipeline scheduled for late 2018. This increase is slower than anticipated in the prior year SCI as a result of the delay in securing new or ramping up of existing gas supply contracts. Revenue growth in the outer years of the plan is also driven by a forecast increase in gas sale volumes. Gas revenue assumes a continuation of current pricing arrangements with Territory Generation either through a continuation of community service obligations (CSO) funding for 2018-19, and beyond that, a new supply arrangement on similar economic terms.

CSO funding is expected to decrease to \$31.6 million in 2018-19 and for the remainder of the SCI period is expected to return to levels of approximately \$16.0 million per annum. Gifted asset revenue, which is provided to Power and Water as part of new developments, is expected to also decrease to \$12.0 million in 2018-19 reflecting lower new project completions. For future years, gifted assets are expected to return to levels of around \$14.0 million per annum.

REVENUES	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Power Networks	196.3	193.3	196.1	195.2	203.4	211.4
Water Services	223.0	219.7	219.0	222.3	232.4	239.7
Gas Supply	224.2	183.3	252.4	302.9	296.0	303.6
System Control	4.5	4.4	4.6	4.7	4.8	4.9
Business Services	9.6	10.1	7.4	7.6	2.7	2.9
Minor Centres and other	6.9	6.7	6.6	6.8	6.9	7.1

## Community service obligations (CSO)

The SCI assumes CSO funding for the Uniform Tariff Concession and Pensioner and Carer Concession schemes. In addition, a CSO related to gas pricing and transportation costs will continue for 2018-19.

COMMUNITY SERVICE OBLIGATIONS	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Uniform Tariff Concession	6.8	6.7	6.8	7.4	7.6	7.6
Pensioner and Carer Concession	8.6	6.7	8.6	8.6	8.6	8.6
Gas Concession	18.7	18.7	16.2	0.0	0.0	0.0
<b>Total</b>	<b>34.1</b>	<b>32.1</b>	<b>31.6</b>	<b>16.0</b>	<b>16.2</b>	<b>16.2</b>

## Operating costs

Operating costs in 2017-18 are forecast to be lower than budget primarily as result of lower gas cost of sales associated with lower gas revenues but also benefiting from a continuing focus on cost efficiency within the context of an acceptable risk profile. The corporation also benefits, compared to the prior year SCI, by a methodology change in relation to the appropriate capitalisation of certain indirect costs associated with the construction of capital assets in line with the approach adopted by other utilities. This will result in additional capitalisation of approximately \$12.0 million per annum from 2017-18 compared to the prior year SCI with a consequent reduction in operating costs in the income statement with no impact on cash costs. In addition, operating costs benefit in the outer years of the SCI from the key priority project enablers with controllable operating costs on an underlying basis (excluding non-cash impairments) forecast to reduce over the SCI period.

OPERATING COSTS	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
Power Networks	112.7	108.3	102.9	94.3	90.3	92.8
Water Services	94.7	84.8	88.5	87.3	86.9	87.5
Systems Control	8.0	7.1	7.9	8.1	8.4	8.8

## Non-cash impairments and write-downs

### Banked gas and onerous gas contracts

As detailed in the Key Assumptions (banked gas), Power and Water is required by relevant accounting standards to write-off gas purchased where no delivery will be received until an undetermined future period and if the future forecast cash flows of the gas business is insufficient to support the recognition of an asset in relation to this gas paid for and not yet delivered. In addition, the SCI includes a \$34.0 million banked gas impairment in 2017-18, although cash flows are forecast to be sufficient to support a banked gas asset of \$23.0 million at 30 June 2019, with banked gas forecast to be utilised through 2019-20 to 2021-22. The banked gas movements are forecast to be offset by a reduction in the associated onerous gas contract provision in both 2017-18 (to \$13.0 million) and 2018-19 (to \$nil) to leave a forecast net income statement impairment charge in 2017-18 of \$5.0 million (budget of \$12.8 million) and a \$13.0 million credit in 2018-19 respectively.

Beyond 2018-19, the gas business is forecasting a significant benefit to the income statement and cash flows from the utilisation of banked gas where the cost has previously been recognised in the income statement. These gross margin benefits are however forecast to be offset by additional onerous gas contract impairment charges to reflect an overall forecast net present value cash shortfall beyond 2018-19 through to the end of the gas supply contract in December 2033. The estimated onerous contract provision at 30 June 2022 is \$25.0 million.

The gas financial outcome included in this SCI reflects the best available forecast at the time of preparing the SCI but is highly likely to change even in advance of the 30 June 2018 year end as a result of further updates to CPI, wages index, gas sales volumes and pricing assumptions, potential changes in the underlying regulatory framework and potentially greater visibility around the renewables policy and the associated penetration of near term solar projects. Consequently, the gas position will be formally reviewed in July 2018 in the normal course as part of the annual statutory accounts process.

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Beyond 2018-19, the sources of estimation uncertainty in the banked gas and associated onerous contract provision which have a significant risk of resulting in a material adjustment to this provision position, include the underlying assumption that all gas purchased is sold, the forward Henry Hub gas price outlook, the outcome of current contract negotiations, the east coast gas market outlook, renewables penetration and the underlying regulatory framework including but not limited to potential domestic gas reservation and changes to the pipeline regulatory framework. As a sensitivity, a change of 10% in the average assumed sales price, or sales volume would result in an overall NPV change of +/- \$350 million.

Whilst the impairment charges included in the SCI are material from an income statement perspective, they are not significant in terms of the remaining fixed cost of the committed gas and purchase contracts through to 2033 which amounts to approximately \$4.0 billion in today's dollars.

### **Asset valuation impacts**

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.

For Power Networks, and consistent with the modelling approach adopted last year and the AER submission case, a forecast increase in carrying values of \$23.0 million is estimated. For Water Services assets, an increase in the carrying value of \$110.0 million has been calculated based on forecast cash flows. Under accounting standards, increases are recorded against reserves and not through the profit and loss unless the relevant asset values had been impaired through the face of the income statement in prior years.

These forecast movements will be updated in July 2018 for statutory accounting purposes, as they are dependent on final fixed asset additions, depreciation, disposals and the carrying value of capital work in progress and associated tax provisions but are based on the best available information as at the date of this SCI. Given the potential for material change and the potential for both a balance sheet and income statement impact (which will only be known when the final valuation impact is applied on an asset by asset basis), no uplift has been reflected in the 2017-18 forecast income statement at this stage.

### **Other expenses**

Depreciation is forecast to decrease from \$118.1 million in 2017-18 to \$104.9 million in 2018-19. The forecast increase in depreciation in 2017-18 compared to the prior year SCI is primarily driven by obtaining depreciation numbers directly from the rebuilt fixed asset accounting system as a result of the successful conclusion of the financial improvement programme in June 2017. The steady reduction in depreciation through the early part of the current SCI period is primarily driven by a number of water assets becoming fully depreciated, although, as these assets remain in service, the depreciation charge in each year will be influenced by an ongoing review of appropriate asset lives.

Interest expense increases from \$47.2 million in 2017-18 to \$52.1 million in 2018-19. Borrowings is forecast to increase by \$58.0 million over this period, however the major impact on interest expense is from the roll-over of debt facilities, which are forecast by the Department of Treasury and Finance to occur slightly at higher interest rates than Power and Water is currently experiencing, and a reduction in the amount of interest forecast to be capitalised on the balance sheet due a reduction in long life capital projects to which interest can be attached under relevant Accounting Standards.

### **Net profit after tax**

Statutory net profit after tax (NPAT) is budgeted in 2018-19 to be \$43.8 million profit compared to a forecast profit of \$32.5 million for 2017-18. The forecast profit in 2017-18, which is \$6.1 million ahead of that in the SCI budget, is driven by the benefit of close control over operating expenditure within the year in line with an acceptable risk profile, the benefit of the methodology change in capitalisation of certain indirect costs offset by higher depreciation costs and some impact from lower gross margins with non-cash impairments in relation to gas and fixed assets also currently forecast to be marginally favourable to budget. These non-cash accounting adjustments, as highlighted above, are subject to change which could impact or benefit the final NPAT on a statutory basis.

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On an underlying basis (i.e. excluding gas energy costs, non-cash write-downs of fixed assets and impairment of banked gas), NPAT is forecast to marginally decrease from a profit \$35.9 million in 2017-18 to \$34.7 million in 2018-19. The underlying forecast result for 2017-18 remains critically dependent on the ability to recognise gifted asset revenue at forecast levels. Underlying NPAT in 2018-19 is impacted by a small reduction in the gas business trading margin, a continued 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 Agreements, mitigated by revenue increases in line with CPI provisions and a continuing focus on cost efficiency within acceptable risk tolerances which continues through the SCI period. Beyond 2018-19, net profit after tax is forecast to steadily increase as forecast revenue increases largely flow through to the bottom line as a consequence of a continued focus on operating efficiency and flat depreciation and interest charges in nominal dollars.

## Fixed Assets and valuation approach

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. It is estimated that forecast DRC depreciation for 2018-19 would be \$135.6 million compared to depreciation under the income approach forecast at \$102.2 million. In isolation, this would result in a dollar for dollar reduction in profit and, 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.

## Cash flow and borrowings

Operating cash flow is forecast at \$51.3 million in 2017-18 and \$89.4 million in 2018-19. Underlying increases in the Earnings before Interest, Tax and Depreciation (EBITDA) lead to significant operating cash flows in the last three years of the SCI with \$166.3 million being generated in 2021-22.

Whilst banked gas payments of \$34.0 million in 2017-18 and a forecast \$23.0 million in 2018-19 are a significant drag on operating cash flows in those two years, 2019-20 through to 2021-22 is forecast to see a cumulative \$112.6 million cash flow benefit from the utilisation of gas which has been banked and paid for in prior years. This drives a significant improvement in operating cash flow in the outer years of the plan.

Aligned with the 'Operating Model' work and associated 'Remediate the Core' program, will be a focus on reducing working capital as a result of improvements in both process and systems. This is targeted to result in a \$20.0 million reduction in receivables and inventory by 30 June 2022 compared with forecast levels at 30 June 2018.

As a result of the completion of the tax sub element of the financial improvement project (which is heavily linked to the fixed asset sub element as a result of the key influence on tax of the differences between tax and book depreciation), the corporation is in a much better position to forecast tax payments to the NT government under the national equivalent tax regime than in prior years. This has however resulted in forecast tax payment of \$42.6 million in 2017-18 (\$1.5 million in prior year SCI) and cumulative payments of \$119.4 million through the SCI period (compared to the prior year SCI estimate of \$57.1 million).

Although operating cash flows are now forecast to be stronger than those forecast in the prior year SCI, higher tax payments and higher capex from Power Networks in line with the submission to the AER, and dividend payments based on 50 percent of statutory NPAT, will result in borrowings \$97.5 million adverse to prior year SCI by 2021-22, although through total forecast tax and dividend payments, the Corporation will be contributing more to government than it is borrowing across the SCI period.

## Capital investment summary

The capital investment program, excluding Regions and Remote Operations, totals \$601.9 million over the four-year SCI period of which \$135.8 million is included in the 2018-19 budget. Capital investment for Power Networks and for Business Services (for IT projects supporting Power Networks) is aligned to the recent AER submission. Of this increase, \$48.0 million is attributable to the increase in interest cost capitalisation which effectively moves operating expenditure to capital expenditure but with no impact on the cash flow of the corporation. Excluding this accounting methodology change, underlying capital expenditure is forecast to be \$81.7 million higher than the prior year SCI.

	2017-18 BUDGET	2017-18 FORECAST	2018-19 BUDGET	2019-20 PROJECTION	2020-21 PROJECTION	2021-22 PROJECTION	4 Years SCI TOTAL
Summary	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Power Networks	55.5	46.2	52.6	81.3	75.5	78.1	287.5
Water Services	66.4	64.8	53.3	41.7	43.5	66.1	204.6
Gas Supply	6.6	2.1	5.4	13.1	6.5	0.5	25.5
Business Services	18.0	11.0	14.0	22.2	17.3	18.7	72.2
Minor Centres and Other	0.9	2.9	10.5	-	0.8	0.8	12.1
<b>Total (excluding Regions and Remote Operations)</b>	<b>147.4</b>	<b>127.0</b>	<b>135.8</b>	<b>158.3</b>	<b>143.6</b>	<b>164.2</b>	<b>601.9</b>
Regions and Remote Operations	69.4	65.7	37.3	18.4	18.9	20.7	95.3
<b>Total including Regions and Remote Operations</b>	<b>216.8</b>	<b>192.7</b>	<b>173.1</b>	<b>176.7</b>	<b>162.5</b>	<b>184.8</b>	<b>697.2</b>

Note: The 2017-18 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 service reliability, business efficiency and demand growth.



# 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 2018-19 peak demand forecasts for the Darwin-Katherine, Tennant Creek and Alice Springs networks.

Peak demand (MW) *	Darwin-Katherine	Tennant Creek	Alice Springs
2017-18 forecast	292.6	7.4	51.7
2018-19 forecast	284.8	9.2	50.7
Longer term outlook 2026-27	280.2	9.2	46.4

\* standard weather maximum demand

## Water demand

The following table shows the 2018-19 water demand forecasts.

Total consumption (ML)	Darwin	Katherine	Tennant Creek	Alice Springs
2017-18 forecast	37,899	2,885	1,269	8,183
Growth	(2.65%)	0.9%	0.5%	0.4%
2018-19 forecast	36,896	2,911	1,275	8,215

Regional growth rates were calculated 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. This program is targeted to reduce water demand by approximately six gigalitres per annum by 2025-26.

## Electricity, water and sewerage in remote communities

Demand growth forecasts for remote 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 2016-17 electricity consumption (kWh). IES growth rates have been determined in conjunction with the Regions and Remote business unit.

The underlying 2017-18 electricity forecast demand growth rate has been set at 4.5 per cent to reflect increased demand resulting from the NTG remote housing program. Demand for the remainder of the SCI period is estimated to be 0.5 per cent for electricity with water and sewerage estimated to remain static on the basis that increases in population are unlikely to have a major influence over demand.

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

Average growth per annum 2019 to 2022	
Electricity (kWh)	0.5%
Water (kL)	0.0%
Sewerage	0.0%

## Retail electricity, water and sewerage tariffs

The revenue projections provided in this SCI are based on the assumption that gazetted retail electricity, water and sewerage prices will increase at the Northern Territory CPI as forecast by the Department of Treasury and Finance in the 2017-18 Mid-Year Report. The following sets out Power and Water's retail tariff escalation assumptions.

Increase effective from:	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22
Retail Electricity Water and sewerage	0.4%	1.3%	1.9%	2.4%	2.5%

## Electricity network tariffs

The electricity network revenue projections provided for 2018-2019 are based on the revenue increases outlined in the Ministerial Direction under the *Government Owned Corporations Act*. In 2019-2022 Power Network's will be regulated under the National Electricity Rules with the Australian Energy Regulator (AER) to determine Power and Water's allowable revenue. For the 2019-2022 period the revenue forecasts in the SCI align with those proposed by Power and Water in its initial Regulatory Proposal to the AER submitted 31 January 2018.

Increase effective from:	1-Jul-18	1-Jul-19	1-Jul-20	1-Jul-21	1-Jul-22
Electricity network	2.0%	-3.6%	4.3%	4.3%	4.4%

## 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 will be finalised. To this end, Power and Water has recently executed a Gas Supply Agreement with Newmont Tanami for the supply of gas its Granites and Dead Bull Soak mine sites.

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 NGP once this project is delivered in the 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 and other potential sales.

## Operating cost escalation

Operating costs are escalated in line with CPI as forecast by the Department of Treasury and Finance in the 2017-18 Mid-Year Report, or in line with goods and services contract provisions as appropriate.

	2017-18 estimate	2018-19	2019-20	2020-21	2021-22
Consumer price index	0.4%	1.3%	1.9%	2.4%	2.5%

*Year ended June, year-on-year percentage change*

## 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 from approximately 5.5 per cent to 4.0 per cent. Current salary increases are made up of 3.0 per cent base salary increases for all staff and an average of 2.5 per cent in salary band increases.
Operating efficiencies	Operating efficiencies reflected in the SCI are supported by the successful implementation of priority projects, specifically the Operation Model, Remediate the Core IT systems, and the key initiatives associated with the move to the National Electricity Rules.

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Borrowing costs	Borrowing costs reflect advice from Treasury Corporation based on the budgeted debt profile.
Capital	It has been assumed that the capital cost of the Katherine Water Supply Source Augmentation program will be largely funded by the Department of Defence. An amount of \$10 million has been included in the SCI for planning and development.
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'. Accounting standards require this undelivered gas to be written-off where the future carrying value cannot be supported as an asset.</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 statement, 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. 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 2016-17 Annual Accounts.

# Key risks

Power and Water has a risk management framework to ensure that regular assessments are undertaken to identify and manage significant risks of community and business significance including health and safety, hazards and security, service delivery, financial, legal and regulatory, environmental and reputational risks. These risks are managed throughout the organisation in line with the Audit and Risk Management Committee charter. The risk framework is also reviewed annually as part of the business planning process.

Power and Water has recently developed its approach to and is continuing to improve on its methodology for making investment decisions and balancing the trade-off between cost and risk exposure. The Power and Water Board’s approved risk appetite statements, which are aligned with the Statement of Corporate Intent Key Performance Indicators, are used to guide investment decision making by explicitly articulating the boundaries of acceptable risk and providing a baseline for comparing risk ratings.

The table below presents the most significant strategic and business risks facing Power and Water and the proposed controls (financial and non-financial) over the SCI period. Major capital investment in risk control primarily relates to infrastructure and system investment. Operational investment is allocated to improvements in management and administrative controls such as management systems, procedures, monitoring, communication, skills capability and operational program delivery. The funding model through the Department of Housing and Community Development for IES assets and improvements also presents challenges to prioritisation. Competing priorities have the potential to expose Power and Water to risks should the funder have differing priorities.

Strategic and Key Business Risks	Key investment focus 2018-2022
<p><b>Health and Safety Risks to Staff, Contractors and the Community</b></p> <p>Due to the diverse nature and locations of Power and Water's (PWC) operations and multiple potential causes there are threats to the health and safety of the public, contractors and our people which could result in harm or fatality, legal consequences, reputational damage and financial loss.</p>	<ul style="list-style-type: none"> <li>• Safety culture improvement, including accountability and leadership, with the aim of achieving a proactive safety culture.</li> <li>• Improved Safety Management System tailored to operational needs.</li> <li>• Enhanced awareness of high risk activities and alignment of controls.</li> </ul>
<p><b>Poor Water Quality</b></p> <p>Due to potential for poor water supply quality caused by poor source quality or other potential causes, there is a threat to community health and safety which could result in serious illness or fatality, legal consequences, reputational damage and financial loss.</p>	<ul style="list-style-type: none"> <li>• Improvement of the Water Quality Management System aligned with the Australian Drinking Water Guidelines including investment in procedures, monitoring and treatment.</li> </ul>
<p><b>Natural Hazards</b></p> <p>Due to potential for failure to adequately prepare and respond to natural unforeseen extreme natural events, there is a threat to infrastructure and people which could result in harm or fatality, legal consequences, reputational damage and financial loss.</p>	<ul style="list-style-type: none"> <li>• Implementation of the Crisis Management Framework</li> </ul>
<p><b>Security Incidents</b></p> <p>There is a risk that PWC may not have 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.</p>	<ul style="list-style-type: none"> <li>• Remediate the Core project to improve management of cyber security risk.</li> <li>• Site and building investments to maintain physical security.</li> </ul>
<p><b>Interruption to Core Services</b></p> <p>Due to multiple potential causes (such as asset failure or gas supply shortage), there is a risk of sustained interruption to core services with significant impacts for the community.</p>	<ul style="list-style-type: none"> <li>• Asset planning and investments to maintain asset performance and meet demand, including supporting the NTG Remote Housing Program.</li> <li>• Improvement in systems to support service delivery such as through the Remediate the Core project and Outage Management System.</li> </ul>

<p><b>Poor Financial Performance</b></p> <p>Due to potential for failure to identify and manage potential financial risks (such as failure to manage costs to the business or unfavorable decisions by the regulator), there is a risk to the financial sustainability of PWC.</p>	<ul style="list-style-type: none"> <li>• Operating cost structure and financial process improvement strategies including via the Operating Model.</li> <li>• Capital investment in line with regulatory determinations.</li> </ul>
<p><b>Major Compliance Breach</b></p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Improved governance and compliance framework to ensure ongoing alignment with the Utilities Commission’s Compliance Framework and Reporting Guidelines, and ISO/Australian standards for compliance management.</li> </ul>
<p><b>Environmental Harm</b></p> <p>Due to multiple potential causes (such as fuel spills, cultural heritage impacts, sewerage odors), there are threats which could result in harm to the environment and people, financial legal and reputational impacts.</p>	<ul style="list-style-type: none"> <li>• Continued compliance with environmental regulation.</li> <li>• Continued implementation of the Environment Management System.</li> <li>• Implementation of the Darwin Region Waste Water Management Strategy.</li> <li>• Supporting the Northern Territory Government to pursue the 50% Renewable Energy Target.</li> </ul>
<p><b>Poor Business Performance</b></p> <p>Due to potential for PWC to fail to optimise its capability and people, and generate a high performing, diverse workforce there is a risk that PWC will not achieve its strategic objectives which could result in decrease in service delivery, reputational damage, decreased staff morale and financial loss.</p>	<ul style="list-style-type: none"> <li>• Implementation of the Culture and Capability Program to support achievement of strategic objectives of the business.</li> </ul>
<p><b>Failure to meet Customer and Stakeholder Expectations</b></p> <p>There is a risk that PWC may fail to effectively engage, understand and address the needs of its customers and stakeholders (including the Government, workforce, business, regulators and the public) which could result in loss of funding, financial loss, reputational damage and regulatory changes.</p>	<ul style="list-style-type: none"> <li>• Implementation of the Customer and Stakeholder Engagement Strategies.</li> </ul>

### Capital investment impact on overall risk profile

The major capital investment program for Power and Water was developed by balancing risk with performance and asset condition and determining the investment required to bring risk to an acceptable level, using the Power and Water risk analysis tool. Proposed investments were prioritised based on risk, giving consideration to how the risk profile would be affected if there was no investment during the SCI period. Projects addressing the highest risks commence earliest in the SCI period, although timing of capital expenditure may occur later depending on the nature of the project. Power and Water is continuing to improve on its methods for quantifying risk (for example in relation to asset condition) and therefore it is expected the accuracy of the identified risk level will improve over time.

### Emerging Risks

There are also a number of emerging risks which Power and Water continually monitors to ensure the required controls are in place to maintain an acceptable risk profile. These risks include:

- **Water Resource Sustainability Risk** due to increased demands, scarce resources and changing rainfall patterns. Risk mitigation controls include the water supply strategies for centres supplied by surface and groundwater sources (e.g. Darwin and Pine Creek), Asset Management Framework and Remote Water Supply Strategy.
- **Water Quality Risk** – Emerging contaminants and research, e.g PFAS, algal blooms, opportunistic pathogens.
- **Climate Change Risk** – Power and Water manages the effects of climate change through its Asset Management Framework, Emergency Management Framework and abovementioned water supply strategies.
- **Business Model Disruption** – Power and Water aims for timely adoption of new technologies and business models to ensure that it maintains efficient service delivery costs and responsive to customer expectations.
- **Gas Contract Risk** – Failure to implement an effective strategy to on-sell gas purchased under long term gas contracts at a favourable price is a threat to financial performance. The Gas Sales Strategy is designed to mitigate this risk. Gas market capacity trading reforms proposed by the Australian Energy Market Commission may have a significant negative impact on the ability to compete against other NT based gas producers.

# Appendix 1

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

INCOME STATEMENT						
POWER AND WATER CORPORATION Unconsolidated	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
<b>REVENUE</b>						
Electricity Network	192.7	191.9	194.4	184.1	191.6	199.6
Electricity Retail	4.3	4.3	4.4	4.5	4.6	4.7
Water	115.3	114.3	118.4	120.0	122.5	126.5
Gas	201.9	160.2	233.0	299.7	292.7	300.4
Sewerage	76.4	75.7	77.4	78.1	81.4	84.5
Community Service Obligations	34.1	32.1	31.6	16.0	16.2	16.2
Developer and Capital Contributions	2.9	5.6	2.9	4.0	4.6	4.7
Gifted assets	23.0	18.0	12.0	14.9	13.9	13.9
Recurrent Grant	0.0	0.0	0.0	0.0	0.0	0.0
Capital Grant	0.0	0.0	0.0	0.0	0.0	0.0
Interest Received	1.0	2.5	2.5	2.6	2.6	2.7
Other Revenue	12.9	13.0	9.5	15.6	16.0	16.3
<b>Total Revenue</b>	<b>664.5</b>	<b>617.6</b>	<b>686.1</b>	<b>739.5</b>	<b>746.3</b>	<b>769.6</b>
<b>OPERATING EXPENDITURE</b>						
Personnel - Direct	139.0	130.3	135.5	136.4	137.0	138.0
Personnel - Operational Recovery (R&M)	(27.7)	(23.8)	(26.7)	(26.3)	(26.0)	(25.6)
Personnel - Operational Recovery (CAPEX)	(19.6)	(16.0)	(17.7)	(17.9)	(18.2)	(18.2)
Contract Labour	5.6	5.8	4.8	4.2	3.8	3.9
<b>Total Personnel Costs</b>	<b>97.3</b>	<b>96.4</b>	<b>95.9</b>	<b>96.3</b>	<b>96.7</b>	<b>98.2</b>
Energy	233.9	185.2	268.7	283.2	284.2	291.7
Repairs & Maintenance	61.0	57.6	58.0	58.1	56.5	56.3
IT & Communications	5.9	7.0	8.5	8.3	8.4	8.7
Vehicle Costs	5.5	5.7	6.2	5.7	5.3	4.8
Travel Costs	1.3	1.4	1.1	1.1	1.2	1.2
Training Costs	2.2	1.6	2.2	2.2	2.3	2.3
Professional Fees	17.2	18.9	14.4	9.2	8.6	11.8
Insurance	2.9	3.0	3.0	3.0	3.0	3.0
Materials	4.1	4.5	4.7	4.1	3.9	3.9
External Service Agreements	10.4	11.6	11.4	11.4	10.4	10.6
Cost of Sale	1.5	2.0	1.8	1.7	1.6	1.7
Property Charges	15.1	16.2	15.7	15.4	14.6	15.0
Bad & Doubtful Debts	0.3	0.3	0.3	0.4	0.4	0.4
Obsolete Inventory	0.0	0.2	0.0	0.0	0.0	0.0
Impairment Costs	12.8	5.0	(13.0)	21.0	13.0	14.0
Laboratory Fees	4.5	2.0	2.0	2.0	2.0	2.1
Grants & Subsidies	1.5	1.3	1.3	1.3	1.3	1.3
Bank Fees	0.2	0.2	0.2	0.2	0.2	0.2
Other Costs	9.3	(4.6)	(6.5)	(9.0)	(10.5)	(11.6)
<b>Total OPEX</b>	<b>486.8</b>	<b>415.5</b>	<b>476.2</b>	<b>515.7</b>	<b>502.9</b>	<b>515.6</b>
Inter Company Allocations	(9.5)	(9.4)	(9.6)	(9.4)	(9.1)	(9.3)
<b>Total Operating Expenditure</b>	<b>477.2</b>	<b>406.1</b>	<b>466.6</b>	<b>506.3</b>	<b>493.8</b>	<b>506.3</b>
<b>EBITDA</b>						
Depreciation & Amortisation	103.8	118.1	104.9	99.2	100.1	100.0
Depreciation (Internal re-charge)	0.0	(0.0)	(0.0)	(0.0)	0.0	(0.0)
<b>EBIT</b>	<b>83.5</b>	<b>93.5</b>	<b>114.6</b>	<b>134.0</b>	<b>152.4</b>	<b>163.3</b>
Interest Expense	45.8	47.2	52.1	59.2	57.8	64.4
<b>Net Profit Before Tax</b>	<b>37.7</b>	<b>46.3</b>	<b>62.5</b>	<b>74.8</b>	<b>94.6</b>	<b>98.9</b>
Tax expense/(benefit)	11.3	13.7	18.8	22.4	28.4	29.7
<b>Net Profit After Tax</b>	<b>26.4</b>	<b>32.5</b>	<b>43.8</b>	<b>52.3</b>	<b>66.2</b>	<b>69.2</b>

## BALANCE SHEET

	2017-18 BUDGET	2017-18 FORECAST	2018-19 BUDGET	2019-20 PROJECTION	2020-21 PROJECTION	2021-22 PROJECTION
POWER AND WATER CORPORATION Unconsolidated	\$M	\$M	\$M	\$M	\$M	\$M
<b>CURRENT ASSETS</b>						
Cash at Bank	61.4	55.7	40.0	40.0	40.0	40.0
Receivables	94.0	79.0	83.7	81.6	81.3	80.0
Inventories	19.8	20.7	20.5	19.0	17.5	16.0
Prepayments	3.5	4.1	4.1	4.1	4.1	4.1
GST & Other Excise Debtors	1.3	1.0	1.0	1.0	1.0	1.0
Other Current Assets	40.6	19.5	43.0	22.0	20.0	20.0
Cost of Sale WIP	3.4	6.0	3.2	3.2	3.2	3.2
Intra-entity Receivable Account	0.0	10.0	10.0	10.0	10.0	10.0
<b>Total Current Assets</b>	<b>224.1</b>	<b>196.0</b>	<b>205.5</b>	<b>180.9</b>	<b>177.1</b>	<b>174.3</b>
<b>NON-CURRENT ASSETS</b>						
Non-Current Receivables	0.0	11.0	25.0	27.5	27.5	16.5
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equipment	1,820.8	1,931.1	1,966.3	2,037.7	2,091.8	2,166.1
Intangible Assets	11.9	1.8	1.8	1.8	1.8	1.8
Deferred Tax Assets	46.3	60.0	62.4	73.6	81.9	89.4
Capital Work in Progress	198.4	195.7	200.4	200.0	200.3	201.0
<b>Total Non Current Assets</b>	<b>2,077.4</b>	<b>2,199.7</b>	<b>2,255.9</b>	<b>2,340.6</b>	<b>2,403.3</b>	<b>2,474.8</b>
<b>Total Assets</b>	<b>2,301.4</b>	<b>2,395.7</b>	<b>2,461.4</b>	<b>2,521.5</b>	<b>2,580.4</b>	<b>2,649.1</b>
<b>CURRENT LIABILITIES</b>						
Payables	13.0	16.3	17.1	18.1	18.8	19.2
Accruals	10.6	13.8	11.2	11.0	10.2	10.2
Unearned Revenue	28.4	29.8	29.7	30.1	31.6	33.1
Borrowings	204.0	204.0	242.0	284.0	209.0	245.0
Government Grants	0.0	0.0	0.0	0.0	0.0	0.0
Provision for Tax	20.5	11.9	6.5	17.9	21.4	21.1
Provisions	52.1	67.1	59.3	63.6	81.6	97.1
<b>Total Current Liabilities</b>	<b>328.6</b>	<b>342.8</b>	<b>365.8</b>	<b>424.8</b>	<b>372.5</b>	<b>425.7</b>
<b>NON-CURRENT LIABILITIES</b>						
Non-Current Employee Provisions	7.3	7.5	8.4	9.3	9.3	9.3
Government Loans	1,014.8	980.0	1,000.0	974.0	1,052.0	1,033.0
Intra-entity Payable Account	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Deferred Tax Liability	19.5	72.2	72.2	72.2	72.2	72.2
Other Non-Current Provisions	0.0	0.2	0.2	0.2	0.2	0.2
<b>Total Non Current Liabilities</b>	<b>1,041.6</b>	<b>1,059.9</b>	<b>1,080.8</b>	<b>1,055.7</b>	<b>1,133.7</b>	<b>1,114.7</b>
<b>Total Liabilities</b>	<b>1,370.2</b>	<b>1,402.6</b>	<b>1,446.5</b>	<b>1,480.4</b>	<b>1,506.2</b>	<b>1,540.3</b>
<b>Net Assets</b>	<b>931.3</b>	<b>993.0</b>	<b>1,014.9</b>	<b>1,041.1</b>	<b>1,074.2</b>	<b>1,108.8</b>
<b>SHAREHOLDER EQUITY</b>						
Contributed equity	38.6	34.3	34.3	34.3	34.3	34.3
Asset Revaluation	212.6	337.6	337.6	337.6	337.6	337.6
Opening Retained profits	666.8	604.8	621.1	643.0	669.1	702.2
Profit / Loss	26.4	32.5	43.8	52.3	66.2	69.2
Dividends	(13.1)	(16.3)	(21.9)	(26.2)	(33.1)	(34.6)
<b>Closing Retained Profits</b>	<b>680.1</b>	<b>621.1</b>	<b>643.0</b>	<b>669.1</b>	<b>702.2</b>	<b>736.8</b>
<b>Total Shareholder Equity</b>	<b>931.3</b>	<b>993.0</b>	<b>1,014.9</b>	<b>1,041.1</b>	<b>1,074.2</b>	<b>1,108.8</b>

## CASHFLOW STATEMENT

POWER AND WATER CORPORATION Unconsolidated	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
EBITDA	187.3	211.5	219.5	233.2	252.5	263.3
Add: Impact of valuation	0.0	0.0	0.0	0.0	0.0	0.0
Less: allocated depreciation	(0.0)	0.0	0.0	0.0	0.0	0.0
Less: gifted assets	(23.0)	(18.0)	(12.0)	(14.9)	(13.9)	(13.9)
<b>Working capital movements</b>						
(Inc)/Dec in receivables	(1.7)	(0.6)	(4.7)	2.2	0.3	1.3
(Inc)/Dec in inventory	0.0	(4.4)	3.0	1.5	1.5	1.5
Inc/(Dec) in payables	(8.6)	(17.9)	(1.8)	1.2	1.4	2.0
<b>Other balance sheet items</b>						
(Inc)/Dec other assets	(8.0)	(10.4)	(23.5)	21.0	2.0	0.0
Inc/(Dec) other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non cash items</b>						
Inc/(Dec) in provisions	(4.2)	(18.9)	(12.4)	0.9	11.0	14.0
Interest paid	(45.8)	(47.2)	(52.1)	(59.2)	(57.8)	(64.4)
Income tax paid	(1.5)	(42.6)	(26.6)	(22.1)	(33.2)	(37.5)
<b>Operating Cash Flow</b>	<b>94.4</b>	<b>51.3</b>	<b>89.4</b>	<b>163.8</b>	<b>163.7</b>	<b>166.3</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Net capital expenditure	(147.4)	(127.0)	(132.8)	(155.4)	(140.5)	(161.2)
Net investments	0.0	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(147.4)</b>	<b>(127.0)</b>	<b>(132.8)</b>	<b>(155.4)</b>	<b>(140.5)</b>	<b>(161.2)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>						
Net movement in loans to controlled entities	(0.0)	0.0	(14.0)	(2.5)	0.0	11.0
Net movement in borrowings	51.0	36.2	58.0	16.0	3.0	17.0
Dividends paid	0.0	0.0	(16.3)	(21.9)	(26.2)	(33.1)
Equity introduced	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>51.0</b>	<b>36.2</b>	<b>27.7</b>	<b>(8.4)</b>	<b>(23.2)</b>	<b>(5.1)</b>
<b>Net Cash Flow</b>	<b>(1.9)</b>	<b>(39.4)</b>	<b>(15.6)</b>	<b>0.0</b>	<b>(0.0)</b>	<b>(0.0)</b>
Opening cash balance	63.3	95.1	55.7	40.0	40.0	40.0
<b>Closing Cash Balance</b>	<b>61.4</b>	<b>55.7</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>



# Appendix 2

## Financial Data: Indigenous Essential Services Pty Ltd

### Key Performance Indicators

		2017-18 SCI	2017-18 Forecast <sup>16</sup>	2018-19 Budget	2019-20 Target	2020-21 Target	2021-22 Target
<b>Health and safety</b>							
Health and safety index <sup>1</sup>	%	80	Zero lost time injuries	80	80	85	90
<b>People and culture</b>							
Employee engagement survey <sup>2</sup>	%	> 70	68 #	70	72	74	76
Organisation culture index <sup>3</sup>	%	+15	63 baseline	+15	+15	+15	+15
<b>Financial performance</b>							
IES Asset Sustainability Ratio <sup>5</sup>	%	165	87	> SCI	> SCI	> SCI	> SCI
IES Tariff/Operating expenditure <sup>6</sup>	%	43	45	> SCI	> SCI	> SCI	> SCI
Liquidity (Quick ratio) <sup>7</sup>	Times	0.6	0.5	> SCI	> SCI	> SCI	> SCI
Statutory net profit after tax <sup>8</sup>	\$M	18.1	8.2	> SCI	> SCI	> SCI	> SCI
<b>Operational performance</b>							
Water demand <sup>9</sup>	Avg kL	< 2,903	2,758 *	< 2,903	< 2,903	< 2,903	< 2,903
Water service loss of availability <sup>10</sup>	Hours	23	1 *	23	23	23	23
Water service mean time between failures <sup>11</sup>	Hours	172	240 *	172	172	172	172
System average interruption duration index (SAIDI) <sup>12</sup>	Min	< 496.3	52.4 *	< 496.3	< 496.3	< 496.3	< 496.3
System average interruption frequency index (SAIFI) <sup>12</sup>	No.	< 8.1	1 *	< 8.1	< 8.1	< 8.1	< 8.1
Uncontrolled sewerage discharges caused by plant <sup>13</sup>	No.	12	0 *	12	12	12	12
<b>Customer</b>							
Customer satisfaction index <sup>14</sup>	%	> 70	76 #	> 70	> 70	> 70	> 70
Compliance with IES Agreement <sup>15</sup>	%	100	100 *	100	100	100	100

All targets reflect Indigenous Essential Services

<sup>1</sup> **Health and safety index:** Reflects a composite measure of 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 employees based on survey respondents measured annually.

<sup>3</sup> **Organisation culture index:** Targeted improvement is an aggregate percentage increase in constructive behaviours for preferred styles each year. An organisational culture survey was 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>5</sup> **IES Asset Sustainability Ratio:** Capital rate of spend applied against plant degradation represented by level of capital investment in any year over the book depreciation for that year.

<sup>6</sup> **IES Tariff/Operating expenditure:** This index reflects the extent IES is self-funding through energy, water and sewer tariffs to deliver services.

<sup>7</sup> **Liquidity - Quick ratio:** (Current assets – inventories)/current liabilities excluding short-term debt.

<sup>8</sup> **Statutory net profit after tax (NPAT):** In line with Statutory Accounts. Note that the timing of projects may significantly impact NPAT. Revenue may be impacted by changes in the timing of the release of capital grants in line with the progress of projects. Depreciation may be impacted by changes in the timing of project completion.

<sup>9</sup> **Water demand:** Average litre consumed per equivalent tenement per day.

<sup>10</sup> **Water service loss of availability:** Cumulative number of hours that water service is unavailable to customers due to unplanned events in the reporting period (regardless of the number of customers affected).

<sup>11</sup> **Water service mean time between failures:** Cumulative number of hours in the reporting period divided by the cumulative number of service interruptions due to unplanned events (regardless of the number of customers affected) averaged over the year.

<sup>12</sup> **System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI):** Standard measure of network reliability (SAIFI – average number of service interruptions per customer) and availability (SAIDI – average duration of service interruption per customer), required for regulated networks by the Utilities Commission in the Standards of Service Code. Rolling twelve month average.

<sup>13</sup> **Uncontrolled sewerage discharges caused by plant:** Cumulative number of uncontrolled sewerage discharges caused by infrastructure failure in the reporting period. Rainfall induced discharges are exempted.

<sup>14</sup> **Customer satisfaction index:** Percentage of customers that rate their overall satisfaction with IES services as either good or better.

<sup>15</sup> **Compliance with IES Agreement:** Extent of compliance with the deliverables under the IES Agreement. Percentage compliance per reporting period.

<sup>16</sup> **Forecast:** Financial forecast reflects the draft 2017-18 forecast prepared February 2018 based on year-to-date actuals to 31 December 2017. \* Actual at 28 February 2018. # Prior year's outcome as 2017-18 outcome not available.

## INCOME STATEMENT

	2017-18 BUDGET	2017-18 FORECAST	2018-19 BUDGET	2019-20 PROJECTION	2020-21 PROJECTION	2021-22 PROJECTION
INDIGENOUS ESSENTIAL SERVICES	\$M	\$M	\$M	\$M	\$M	\$M
<b>REVENUE</b>						
Electricity Network	0.1	0.1	0.1	0.1	0.1	0.1
Electricity Retail	32.3	31.3	34.4	35.4	36.1	37.3
Water	6.0	6.2	6.0	6.2	6.3	6.5
Sewerage	3.2	3.2	3.3	3.3	3.4	3.5
Developer and Capital Contributions	0.0	0.9	0.0	0.0	0.0	0.0
Gifted assets	0.0	0.0	5.0	7.0	7.0	7.0
Recurrent Grant	57.4	50.4	56.3	58.6	60.0	61.4
Capital Grant	69.4	53.6	31.5	18.4	18.9	20.7
Interest Received	0.0	0.5	0.5	0.5	0.5	0.5
Other Revenue	0.0	0.1	0.3	0.0	0.0	0.0
<b>Total Revenue</b>	<b>168.3</b>	<b>146.1</b>	<b>137.5</b>	<b>129.5</b>	<b>132.4</b>	<b>137.1</b>
<b>OPERATING EXPENDITURE</b>						
Personnel - Direct	17.8	18.4	17.1	17.3	18.0	19.1
Personnel - Operational Recovery (R&M)	(3.4)	(3.3)	(3.5)	(3.6)	(3.3)	(3.3)
Personnel - Operational Recovery (CAPEX)	(3.4)	(3.8)	(3.0)	(2.0)	(2.0)	(2.0)
Contract Labour	0.2	0.1	0.1	0.0	0.0	0.0
<b>Total Personnel Costs</b>	<b>11.2</b>	<b>11.5</b>	<b>10.7</b>	<b>11.7</b>	<b>12.7</b>	<b>13.8</b>
Energy	29.3	29.3	33.8	34.5	37.9	37.8
Repairs & Maintenance	17.1	16.4	17.3	17.7	18.2	18.7
IT & Communications	1.5	1.5	1.5	1.6	1.6	1.7
Vehicle Costs	0.8	0.9	1.0	1.0	1.0	1.0
Travel Costs	1.0	0.8	0.7	0.7	0.8	0.8
Training Costs	0.4	0.3	0.4	0.4	0.4	0.4
Professional Fees	1.3	1.0	1.9	1.2	1.2	1.2
Materials	1.8	2.0	2.0	2.1	2.1	2.2
External Service Agreements	12.4	12.3	13.4	13.7	14.0	14.3
Property Charges	0.5	0.5	0.5	0.5	0.5	0.5
Laboratory Fees	0.9	0.9	0.9	0.9	0.9	0.9
Other Costs	4.3	4.0	3.9	3.9	3.9	3.9
<b>Total OPEX</b>	<b>82.6</b>	<b>81.4</b>	<b>88.1</b>	<b>89.9</b>	<b>95.2</b>	<b>97.2</b>
Inter Company Allocations	9.5	9.3	9.6	9.4	9.1	9.3
<b>Total Operating Expenditure</b>	<b>92.1</b>	<b>90.7</b>	<b>97.6</b>	<b>99.3</b>	<b>104.4</b>	<b>106.6</b>
<b>EBITDA</b>	<b>76.2</b>	<b>55.5</b>	<b>39.9</b>	<b>30.2</b>	<b>28.0</b>	<b>30.5</b>
Depreciation & Amortisation	56.2	46.4	39.8	38.9	38.2	37.7
<b>EBIT</b>	<b>20.0</b>	<b>9.1</b>	<b>0.1</b>	<b>(8.8)</b>	<b>(10.1)</b>	<b>(7.2)</b>
Interest Expense	1.9	0.8	1.5	1.9	2.0	1.9
<b>Net Profit Before Tax</b>	<b>18.1</b>	<b>8.2</b>	<b>(1.5)</b>	<b>(10.7)</b>	<b>(12.1)</b>	<b>(9.0)</b>
Tax expense/(benefit)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit After Tax</b>	<b>18.1</b>	<b>8.2</b>	<b>(1.5)</b>	<b>(10.7)</b>	<b>(12.1)</b>	<b>(9.0)</b>

## BALANCE SHEET

INDIGENOUS ESSENTIAL SERVICES	2017-18 BUDGET \$M	2017-18 FORECAST \$M	2018-19 BUDGET \$M	2019-20 PROJECTION \$M	2020-21 PROJECTION \$M	2021-22 PROJECTION \$M
<b>CURRENT ASSETS</b>						
Cash at Bank	55.6	26.5	36.1	42.7	43.7	33.2
Receivables	7.8	0.4	0.4	0.4	0.4	0.4
Inventories	5.2	5.2	5.2	5.0	5.0	5.0
Prepayments	0.2	0.2	0.2	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>68.8</b>	<b>32.4</b>	<b>41.9</b>	<b>48.1</b>	<b>49.1</b>	<b>38.6</b>
<b>NON-CURRENT ASSETS</b>						
Property, Plant & Equipment	801.0	695.5	698.0	684.5	672.2	662.2
Capital Work in Progress	36.5	61.8	61.8	61.8	61.8	61.8
<b>Total Non Current Assets</b>	<b>837.5</b>	<b>757.3</b>	<b>759.8</b>	<b>746.3</b>	<b>734.0</b>	<b>724.1</b>
<b>Total Assets</b>	<b>906.3</b>	<b>789.7</b>	<b>801.8</b>	<b>794.4</b>	<b>783.1</b>	<b>762.7</b>
<b>CURRENT LIABILITIES</b>						
Payables	6.0	10.5	11.5	11.6	11.9	12.1
Accruals	1.9	5.0	5.3	5.3	5.5	5.6
Unearned Revenue	45.8	30.3	28.5	29.2	29.6	28.8
Inter-Entity Payables	24.0	10.0	10.0	10.0	10.0	10.0
Lease Liability	6.2	1.0	1.0	1.0	1.0	1.0
<b>Total Current Liabilities</b>	<b>83.8</b>	<b>56.7</b>	<b>56.3</b>	<b>57.1</b>	<b>57.9</b>	<b>57.5</b>
<b>NON-CURRENT LIABILITIES</b>						
Loans and advances from Controlled Entities	0.0	11.0	25.0	27.5	27.5	16.5
Non-Current Lease Liability	0.0	7.6	7.6	7.6	7.6	7.6
<b>Total Non Current Liabilities</b>	<b>0.0</b>	<b>18.6</b>	<b>32.6</b>	<b>35.1</b>	<b>35.1</b>	<b>24.1</b>
<b>Total Liabilities</b>	<b>83.8</b>	<b>75.3</b>	<b>88.9</b>	<b>92.2</b>	<b>93.0</b>	<b>81.6</b>
<b>Net Assets</b>	<b>822.5</b>	<b>714.3</b>	<b>712.9</b>	<b>702.2</b>	<b>690.1</b>	<b>681.1</b>
<b>SHAREHOLDER EQUITY</b>						
Asset Revaluation	575.3	484.6	484.6	484.6	484.6	484.6
Opening Retained profits	229.2	221.5	229.7	228.2	217.6	205.5
Profit / Loss	18.1	8.2	(1.5)	(10.7)	(12.1)	(9.0)
<b>Closing Retained Profits</b>	<b>247.2</b>	<b>229.7</b>	<b>228.2</b>	<b>217.6</b>	<b>205.5</b>	<b>196.5</b>
<b>Total Shareholder Equity</b>	<b>822.5</b>	<b>714.3</b>	<b>712.9</b>	<b>702.2</b>	<b>690.1</b>	<b>681.1</b>

## CASHFLOW STATEMENT

INDIGENOUS ESSENTIAL SERVICES	2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	BUDGET	FORECAST	BUDGET	PROJECTION	PROJECTION	PROJECTION
	\$M	\$M	\$M	\$M	\$M	\$M
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
EBITDA	76.2	55.5	39.9	30.2	28.0	30.5
Less: gifted assets	0.0	0.0	(5.0)	(7.0)	(7.0)	(7.0)
<b>Working capital movements</b>						
(Inc)/Dec in receivables	(1.6)	0.0	0.0	0.0	(0.0)	(0.0)
(Inc)/Dec in inventory	0.0	(0.2)	0.0	0.2	0.0	0.0
Inc/(Dec) in payables	11.2	(12.0)	(0.4)	0.8	0.8	(0.4)
Other balance sheet items						
(Inc)/Dec other assets	8.0	0.0	0.0	0.2	0.0	0.0
Interest paid	(1.9)	(0.8)	(1.5)	(1.9)	(2.0)	(1.9)
<b>Operating Cash Flow</b>	<b>91.9</b>	<b>42.6</b>	<b>32.9</b>	<b>22.5</b>	<b>19.9</b>	<b>21.2</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Net capital expenditure	(69.4)	(65.7)	(37.3)	(18.4)	(18.9)	(20.7)
<b>Investing Cash Flow</b>	<b>(69.4)</b>	<b>(65.7)</b>	<b>(37.3)</b>	<b>(18.4)</b>	<b>(18.9)</b>	<b>(20.7)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>						
Net movement in loans to controlled entities	0.0	0.0	14.0	2.5	0.0	(11.0)
<b>Financing Cash Flow</b>	<b>0.0</b>	<b>0.0</b>	<b>14.0</b>	<b>2.5</b>	<b>0.0</b>	<b>(11.0)</b>
<b>Net Cash Flow</b>	<b>22.5</b>	<b>(23.1)</b>	<b>9.6</b>	<b>6.6</b>	<b>1.0</b>	<b>(10.5)</b>
Opening cash balance	33.1	49.7	26.5	36.1	42.7	43.7
<b>Closing Cash Balance</b>	<b>55.6</b>	<b>26.5</b>	<b>36.1</b>	<b>42.7</b>	<b>43.7</b>	<b>33.2</b>

# Glossary

ADWG	Australian Drinking Water Guidelines
AER	Australian Energy Regulator
CAPEX	Capital expenditure
CPI	Consumer Price Index
CSO	Community service obligation
DHCD	Department of Housing and Community Development
DRC	Depreciated Replacement Cost
EA	Enterprise Agreement
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	Kilometres
KPI	Key Performance Indicator
KRA	Key Result Area
kV	Kilovolt, 1,000 volts
kWh	Kilowatt hour
LNG	Liquefied Natural Gas
M	Million
ML	Megalitre
MW	Megawatt
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
NT NER	Northern Territory adaption of the National Electricity Rules
OPEX	Operating expenditure
PFAS	Poly-fluorinated alkyl substances
PWC	Power and Water Corporation
RM	Repairs and maintenance
RTC	Remediate the Core project
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
T-Gen	Territory Generation
UC	Utilities Commission
WWTP	Wastewater Treatment Plant
ZSS	Zone substation



**POWER AND WATER CORPORATION**

Level 2, Mitchell Centre  
55 Mitchell Street, Darwin

**Phone** 1800 245 092

**Email** [customerservice@powerwater.com.au](mailto:customerservice@powerwater.com.au)

**Customer service centres**

Shop 28, Ground Floor  
Mitchell Centre  
55 Mitchell Street, Darwin

Shop 21, Palmerston Shopping Centre  
10 Temple Terrace  
Palmerston

Ground Floor, Government Centre  
5 First Street  
Katherine

Shop 8, Alice Plaza  
36 Todd Mall  
Alice Springs

**[powerwater.com.au](http://powerwater.com.au)**



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