

POWERING THE NT



2016–17 ANNUAL REPORT

2016/17 HIGHLIGHTS



1000

ACHIEVED IN EXCESS OF
1000 LOST-TIME-INJURY
(LTI)-FREE DAYS AT
CHANNEL ISLAND POWER
STATION (SEE PAGE 37)



LEADERSHIP

3-YEAR TRAINING AND
COACHING PROGRAM
COMMENCED
(SEE PAGE 34)



**\$33
MILLION**

EARNINGS BEFORE
INTEREST, TAX,
DEPRECIATION AND
AMORTISATION
(SEE PAGE 65)



**RENEWABLES
STRATEGY**

DEVELOPED
(SEE PAGE 28)



FINALIST

2017 WOMEN IN
RESOURCES AWARDS



237

FULL-TIME EQUIVALENT
EMPLOYEES AT
30 JUNE 2017
(SEE PAGE 33)



**\$101
MILLION**

IN NEW ASSETS
UNDERWAY WITH
TRANSFORMATION
PROJECT (SEE PAGE 30)



**CORPORATE
SUSTAINABILITY**

STEERING COMMITTEE AND
CHARTER ESTABLISHED
(SEE PAGE 49)



TRAINING

NEW SYSTEMS
IMPLEMENTED
AND \$800,000 DEDICATED
TO UPSKILLING STAFF
(SEE PAGE 34)



**\$260
MILLION**

COST OF ENERGY
(SEE PAGE 65)



**665
DAYS**

NEW RECORD SET
IN RELIABILITY
(SEE PAGE 41)



DIVERSITY

SCHOLARSHIPS PROVIDED
TO ENGINEERING
STUDENTS AND DIVERSITY
DAY HELD ACROSS ALL
SITES (SEE PAGE 35)



REMOTE OPERATIONS CENTRE

CONNECTIVITY AND BEST PRACTICE TECHNOLOGY IMPLEMENTED (SEE PAGE 55)



NEW BATTERY

ENERGY STORAGE PROJECT GETS GREEN LIGHT (SEE PAGE 48)



NEW OPERATING MODEL

RESOURCES SECURED FOR NEW OPERATIONS (SEE PAGE 42)



ONE HOUR RULE

NEW COMMUNICATION PROTOCOL FOR INCIDENTS (SEE PAGE 38)



INCIDENT MANAGEMENT

NEW SYSTEM DEVELOPED (SEE PAGE 41)



MAJOR I.T. PROJECTS

IMPROVING TECHNOLOGY IN THE BUSINESS



SAFETY SYSTEMS

IMPLEMENTATION OF NEW SAFE SYSTEMS OF WORK (SEE PAGE 37)



WEEKLY NEWSLETTERS

AS PART OF INCREASED REGULAR COMMUNICATIONS (SEE PAGE 58)



\$295 MILLION

ELECTRICITY SALES (SEE PAGE 65)



1875 GWh

POWER GENERATED (SEE PAGE 41)



EMERGING WOMEN LEADERS

NEW MENTORING PATHWAY ESTABLISHED (SEE PAGE 35)



CORPORATE RESPONSIBILITY

PARTNERSHIPS WITH INDUSTRY, CHARITIES AND THE COMMUNITY (SEE PAGE 60)

ABOUT THIS REPORT

THE 2016/17 ANNUAL REPORT OF POWER GENERATION CORPORATION (TRADING AS TERRITORY GENERATION) SUMMARISES OPERATIONS AND ACHIEVEMENTS FOR THE FINANCIAL YEAR. PURSUANT TO SECTION 44 OF THE *GOVERNMENT OWNED CORPORATIONS ACT*, THE REPORT INFORMS THE NORTHERN TERRITORY LEGISLATIVE ASSEMBLY, NORTHERN TERRITORIANS AND OTHER STAKEHOLDERS OF:

- Territory Generation's primary services and responsibilities.
- Significant activities of the year, highlighting major projects, key achievements and outcomes.
- Financial management and performance that complies with the *Corporations Act*.

The annual report is tabled in the Legislative Assembly as a reporting mechanism for Territory Generation's shareholding Minister, portfolio Minister and the Northern Territory.

It provides a statement of the financial position of the Corporation, including the achievements, income and expenditure for the 2016/17 financial year.

This report also provides information for stakeholders, including Territorians who have an interest in the provision of electricity generation services in the Northern Territory.

This is Territory Generation's third annual report following the introduction of structural reforms to the Northern Territory electricity industry.

OUR COVER – PHOEBE MICHEL

Working with large diesel engines, heavy machinery and heavy duty tools are all in a day's work for Mechanical Fitter Phoebe Michel. Phoebe works in Alice Springs and officially completed her apprenticeship in August 2017.

Internal document reference
TGD2017/81841

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VISION

TO BE THE TRUSTED AND RESPECTED EMPLOYER AND ELECTRICITY GENERATION BUSINESS OF CHOICE.

These words have been carefully chosen, and for us they mean:

- Safety is universally recognised as our highest priority;
- We are known for being reliable, efficient and available when required;
- We are a commercial organisation that is highly efficient and sustainable;
- We exceed the expectations of our customers;
- We are competitive with other players in the market; and
- We are an employer of choice.

PURPOSE

TO SAFELY, EFFICIENTLY AND RELIABLY GENERATE ELECTRICITY TO SUSTAINABLY CONTRIBUTE TO THE LIFESTYLE AND DEVELOPMENT OF THE NORTHERN TERRITORY.



VALUES

FOCUS

We focus our efforts on delivering a safe, reliable and cost efficient operation that we are all proud to be part of.

Territory Generation has developed a set of Values that underpin the way we will work with each other and the way we will conduct our business.

- We understand what is important to our success and we prioritise accordingly.
- We deliver considered and timely outcomes.
- We are competent in what we do and understand our roles.
- We take responsibility and accountability to deliver on our agreed objectives.
- We constantly look for opportunities to improve everything we do.

INTEGRITY

We are open and honest with our words and actions “to do and say the right thing”.

- We are trustworthy and honest.
- We take responsibility for our words and our actions.
- We do what we say we will do.
- We do the right thing and comply with all legislation and procedures.
- We challenge when our Values are not adhered to.

RESPECT

We show respect for our team mates, the environment, and the communities in which we work.

- We are professional in our interactions, offering trust and support and treating people the same way as we would like to be treated.
- We do not tolerate or ignore inappropriate comments or bullying.
- We respect other cultures and treat people equally, regardless of gender, age, nationality or religion.
- We treat our people, assets and finances respectfully, and comply with governing laws, regulations and corporation procedures.

SAFETY

We conduct our business and our roles with a strong focus on avoiding injury to our people or damage to assets and the environment.

- We recognise safety is first in everything we do.
- We take responsibility for ensuring our own safety and lookout for workmates and others we work with as well.
- We do not walk past or ignore what is not safe.
- We adhere to safe work practices, processes and procedures.
- We ensure that safety is considered in our planning, our work and our actions.

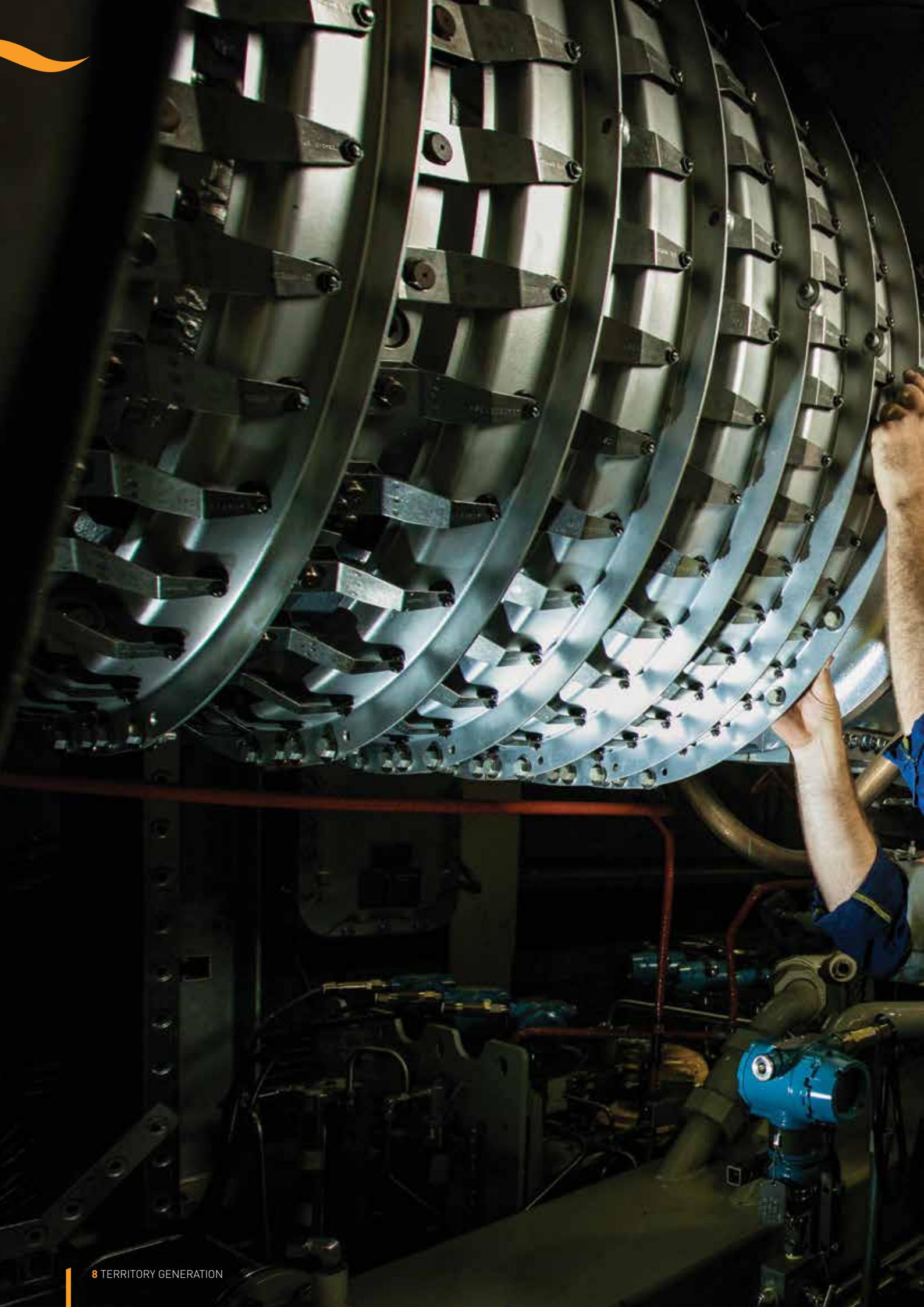
TEAMWORK

We are one team, with aligned goals working together to achieve Territory Generation’s Vision.

- We listen and learn from alternate points of view, we work together to achieve the best outcome for the business, our employees, and the community.
- We look for better ways to operate more efficiently and willingly share our ideas and information within Territory Generation.
- We volunteer to help others as needed and we encourage each other to challenge the process to find a better way.

At Territory Generation, safety is not negotiable. This means:

- Everyone has an obligation to stop work that they believe may be unsafe
- We must always report every incident, near hit and injury
- We only operate equipment for which we are competent and authorised
- We never remove another person’s Danger Tag or Personal Lock, without written authorisation
- No person may work if under the influence of alcohol or drugs
- We must always correctly wear compulsory Personal Protective Equipment



LETTER TO THE SHAREHOLDER

Treasurer
Parliament of the Northern Territory
Darwin NT 0800

Dear Treasurer

On behalf of the people and Board of Power Generation Corporation (trading as Territory Generation), it gives us great pleasure to present our third annual report, for the year ended 30 June 2017, in accordance with the provisions of section 44 of the *Government Owned Corporations Act*.



David De Silva
Chairman



Tim Duignan
Chief Executive Officer

CHAIRPERSON'S MESSAGE



DURING THE 2016/17 FINANCIAL YEAR, TERRITORY GENERATION HAS IMPROVED ITS SAFETY SYSTEMS AND PROCESSES, INCREASED THE RELIABILITY OF ITS OPERATIONS AND ENHANCED ITS WORKFORCE BY PLACING PARTICULAR FOCUS ON TRAINING AND DIVERSITY.

I am humbled to lead an organisation that is totally engaged with its role of providing electricity generation to Territorians. My gratitude starts with my fellow Board members, Leeanne Bond, Jon Hubbard and John Tourish who joined us last year for what has been a truly exciting and whirlwind 12 months in generation.

I would particularly pass on my Board's thanks to the employees of Territory Generation who have again excelled in achieving our vision to be the trusted and respected employer and electricity generation business of choice.

Territory Generation's vision to be the "business of choice" is becoming increasingly important as the past 12 months have indeed reflected our earlier projections of where we believed the energy industry was heading.

Indeed, much of the work being done by Territory Generation is concentrated on robust modelling for what the industry under a future renewables target might look like; and it is as "up-to-the-minute" if not in advance of the modelling that has been completed in other jurisdictions.

In preparing for the future, it is important to note that we are guided in all we do by our shareholder's three key principles, namely:

- Electricity assets retained in Government ownership
- Achieving 50% renewable target by 2030
- Power price increases no greater than CPI.

The key drivers of change occurring in the external business landscape not only include the moves toward the Government's renewables target of 50 per cent by 2030, but also the impending development of a new wholesale electricity market, significantly reducing forecast demand in all regions due to increased penetration of rooftop and industrial/commercial solar installations, together with utility-scale new solar generation entry. These factors combined continue to pose a significant threat to Territory Generation's business and its commercial performance.

It also provides significant opportunity, as we reflect on what other initiatives we will need to focus on, particularly taking into consideration our financial result. The net loss of \$0.6 million is the first Territory Generation has reported since its inception.

The result is in line with revised expectations, with increased investment in improvement projects, reduced electricity sales, increased input costs and additional System Control reliability requirements the prime reasons for the result.

Although disappointing, we are encouraged that through robust modelling we now have a clear understanding of our costs, particularly in regard to ancillary services, which is important in any future market.

Overall, the electricity industry is undergoing significant and rapid change globally and also locally in the Territory. The combination of the size of the market, competition, rapid change within the industry and technology are all playing a part in directly effecting Territory Generation's performance and future.

All the current data suggests this will occur within a short time frame – possibly as early as 2021, and for Territory Generation to survive as a viable entity, we must continue to:

- Secure our future and take control of our own destiny
- Become more efficient so we are competitive and can withstand the threat posed by disruption of technology as well as any future competitors
- Keep up with the rapid moves globally toward a renewable energy future
- Ensure an adequate financial return for our shareholders

The need to change is not driven solely by competition. Territory Generation has a responsibility to its stakeholders including its shareholder, retail customers and the community, to produce electricity as efficiently and reliably as possible.

In doing so, our focus is about “getting the balance right” by replacing existing aged machinery and technology with new, state-of the-art, renewable equipment while delivering:

1. Reliability
2. Affordability
3. Sustainability

One of the key challenges that we have made enormous progress on, is our approach toward a new operating model in the majority of our sites which we are confident will result in significant benefits for our organisation in the future.

The benefits of the new operating model will become increasingly evident towards the end of 2017 and our focus will then shift towards potential growth opportunities in the years 2018 onward, as the new operating model starts to take shape.

By the end of 2017, significant upgrades to Territory Generation’s asset fleet, particularly in the Southern region, will be complete and the new Remote Operations Centre will come online for all Territory Generation sites.

There is no doubt that of all our values, we place safety as the highest priority. We have introduced sweeping changes into the workplace that have the ultimate goal of meeting the priority of staying safe.

Our safety record in regard to Lost Time Injury is one to be envied.

During the first week of May 2017, Channel Island and Weddell workers celebrated the milestone of 1000 days Lost Time Injury (LTI)-free, which is an extraordinary achievement.

Aside from safety, one of the other key operational performance indicators also celebrates another milestone, in that we have continued our record number of days without a single-contingency under-frequency load-shed event in the Darwin-Katherine grid. That record as at 30 June 2017 was 665 days, which is unheralded in the history of power generation supply in the Territory. Prior to structural separation three years ago, the record was 121 days. On its own, this statistic demonstrates how far we have come.

Additional highlights that have occurred during this year, that I have been personally proud to see progress, are:

- Upgrades of the Tennant Creek and Owen Springs Power Stations, with a total investment of \$101 million to further improve reliability, efficiency and safety.
- The development of the Remote Operations Centre (ROC), centralising the dispatch, operation and monitoring of all Territory Generation’s assets.
- An increased focus on diversity within the workplace. Territory Generation has sponsored Engineers Australia by offering two scholarships to increase the representation of Aboriginal and Torres Strait Islanders and women in non-traditional roles.

- We also entered into an exciting new community partnership with CareFlight, with whom we have a shared commitment to helping people in the Northern Territory and the communities in which we live, operate and work. The partnership is focused on a joint mission of helping to keep Territorians safe and well.

I would like to recognise the continuing efforts of CEO Tim Duignan for his leadership in transitioning the workforce at a time when a “Business-As-Usual” approach would be the quickest path to our demise. Tim’s many years of experience in the generation industry have been invaluable for the Territory at a time when we move forward through uncertain challenging issues.



David De Silva
Chairperson

CHIEF EXECUTIVE'S MESSAGE

SETTING THE FOUNDATIONS FOR THE FUTURE OF ENERGY



TERRITORY GENERATION IS DELIVERING THE FUTURE OF ENERGY IN THE NORTHERN TERRITORY WITH FURTHER SIGNIFICANT ACHIEVEMENTS IN RELIABLE, AFFORDABLE AND SUSTAINABLE POWER SUPPLY.

Throughout 2016/17, Territory Generation advanced delivery of major new power generation projects in central Australia, and improved the reliability of existing generation assets.

In addition, Territory Generation achieved transformational change in terms of business systems, information technology, integration of renewable energy sources, and workplace culture.

These improvements in generation capacity, reliability and business efficiency bring to life the detailed planning and strategic goals of previous years, and set in place foundations for future growth and leadership in a new energy landscape.

Throughout this period of intense structural, cultural and technological change, we maintained our priority focus on safety, helping to create a safer workplace for Territory Generation employees and contractors.

For the 12 months to 30 June 2017 we achieved a Total Recordable Injury Frequency Rate (TRIFR) of 2.1, compared with 4.7 for the previous year.

Safety remains our absolute top priority and we have implemented significant improvements to the policies, systems and workplace procedures that provide the basis for all Territory Generation employees and contractors to think and work safely every day.

During the year we continued to implement the Safe Systems of Work project, which has involved improvements to our permit to work policy and procedures, induction and training practices, and compliance and training management.

In practice this means that our people, as well as the employees of contract service companies performing work on our behalf, have the necessary skills, tools and support to stay safe.

A tangible example of the success of this focus on safety is the achievement of a new record of over 1,000 days without a lost time injury at the Channel Island and Weddell Power Stations.

We also recorded strong safety performance and construction progress on major southern region power generation capacity upgrade projects, which are expected to come on line in late 2017.

This included excellent progress on the \$75 million capacity expansion project at Owen Springs Power Station, which involves installation of 10 new reciprocating gas engines, which will effectively double the power station capacity to 77 megawatts (MW).

The \$26 million upgrade project at our Tennant Creek Power Station involves replacing aged generators with three 2MW gas-fired engines and a 1.5MW diesel engine.

At 30 June 2017 both projects were entering final commissioning and when online in late 2017 will allow the shut-down and decommissioning of the ageing Rod Goodin Power Station in Alice Springs, with the land rehabilitated and repurposed.

Supporting the introduction of new generation capacity has been a sustained focus on planned and preventative maintenance on existing assets.

This approach enables Territory Generation to efficiently deliver a more reliable power supply, and this year we set another new reliability record for the Darwin/Katherine system, achieving 665 days without a single-contingency under-frequency load shed event.

Our long term strategic planning process anticipates Territory Generation being the principal enabler of the Northern Territory's goal to implement 50 per cent renewable energy by 2030.

In 2016/17 we began planning for a key element of that vision with proposals for a state-of-the-art battery storage system designed to support the increasing take-up of solar power.

In June we received planning approval for the installation of the 5MW battery storage system which will play a crucial role in smoothing out the variations in power output from solar power systems installed in Alice Springs.

The battery storage system is expected to be installed and commissioned by early 2018, and will be operating in time for the 2018 summer peak demand period.

Our move to new headquarters in Berrimah in 2015/16 included the construction of a Remote Operations Centre (ROC), designed to provide real-time management of generation asset operations.

In tandem with the ROC construction, Territory Generation completed a major information technology infrastructure project to provide the high speed network linking all sites to the ROC, as well as providing a network interface to Power and Water Corporation's System Control.

At 30 June 2017, both the ROC and the network builds had been completed, along with training for ROC operators, and the system was successfully monitoring data from generation assets in Alice Springs.

The ROC will be monitoring and controlling all of the Territory Generation fleet by the end of next financial year.

One of the most significant changes for Territory Generation in 2016/17 was the adoption of a new Operator/Maintainer model for our operation and maintenance functions, which represents the majority of our workforce.

The new Operator/Maintainer model effectively creates additional skilled opportunities for employees who are trained to fulfil both operations and maintenance activities, particularly in relation to new generation technologies such as battery storage and solar.

The new workforce model prepares our workforce for the future of energy generation in the Northern Territory by providing the necessary flexibility to operate efficiently, to take advantage of new technologies, and respond to emerging business opportunities.

Although our ultimate financial result is disappointing, it is not surprising given some of the external factors involved; and is a stark reminder to us all that we need to be vigilant going forward to ensure our long-term success.

We are under increased pressure from competitors, and we'll need to continue to develop an intimate understanding of our own costs and how we can become more sustainable.

We will need to continue to make significant investments in our moves toward renewable energy and how these link to the national energy security agenda.

I'm encouraged that we are already doing a lot of work in this space, as well as to develop and implement tools, practices and accountability throughout the business that represent a first-class commercially-focussed culture.

Against this backdrop of rapid technological change, significant business reform and replacement of ageing generation assets with new capacity, the Territory Generation workforce has proved to be resilient, adaptive, and ready to embrace change.

I would like to recognise and thank our people for having the courage and the energy to stand up and face these challenges, and to bring to life the strategic plan and vision that has placed Territory Generation at the heart of the future of energy in the Northern Territory.



Tim Duignan
Chief Executive Officer

BOARD PROFILES

**DAVID
DE SILVA**

LLB
MAICD



INDEPENDENT NON-EXECUTIVE CHAIR

David received his Bachelor of Law Degree from the University of Adelaide in 1987. He completed an Associateship with Justice Millhouse in the Supreme Court of South Australia in 1989, completed his Articles of Clerkship with Poveys and then worked as a litigation lawyer with Cridlands in Darwin. Since 1993, Mr De Silva has been a partner of De Silva Hebron, a legal firm which has now been in business in Darwin for more than 20 years. In addition to service on the below Boards, David volunteers at and is a member of several community organisations and clubs.

Current directorships:

- Darwin Waterfront Corporation
- Tennis NT Inc
- Territory Equities Pty Ltd
- Darwin Performing Arts Centre Ltd (Chair)

**LEEEANNE
BOND**

BE (CHEM), MBA,
FAICD, FIEAust, RPEQ



INDEPENDENT NON-EXECUTIVE DEPUTY CHAIR

Leeanne is an experienced company director and holds board roles in the energy and water sectors. Leeanne is a former director of Tarong Energy Corporation and Seqwater and former chair of Brisbane Water. Leeanne has a background in chemical engineering and over 25 years senior management experience across a broad range of industrial sectors including energy, minerals, infrastructure, and water resources. From 1996 to 2006, Leeanne played a key role in establishing and growing WorleyParsons in Queensland in senior positions including as General Manager (Queensland, PNG and NT).

Current directorships:

- Snowy Hydro Corporation
- Liquefied Natural Gas Ltd
- JKTech Pty Ltd
- Clean Energy Finance Corporation
- Syntec Corporation Limited
- Engineers Australia
- QBCC (Queensland Building & Construction Commission)



JON HUBBARD

BCOM, CA, GAICD



JOHN TOURISH

BE (MECH)
MBO (MHU)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Jon is a former partner at PricewaterhouseCoopers and a former director of CS Energy. He has extensive experience in the energy, utility and resources sectors, as well as a strong accounting and finance background. During his advisory career, Jon has specialised in providing advice to the energy industry in the areas of corporate strategy, industry reform, mergers and acquisitions, regulation, climate change and renewable energy.

Current directorships:

- Infocus Wealth Management Ltd
- Australian Energy Market Operator Ltd

INDEPENDENT NON-EXECUTIVE DIRECTOR

John began his career in the electricity generation industry in NSW as a Mechanical Engineer. John has owned and operated businesses in the hospitality industry in NSW and Queensland. John has operated hospitality businesses and a logistics company in the Northern Territory since November 2005 and currently employs more than 100 people. He lives in East Arnhem Land and operates The Walkabout Lodge in Nhulunbuy and The Precinct Tavern in Darwin.

Current directorships:

- Australian Hotels Association (NT)
- Northern Territory Business Advisory Council

EXECUTIVE LEADERSHIP TEAM

TIM DUGNAN

BBUS, MARKETING,
ASS DIP (ELEC
ENG), FIE AUST,
MAICD



CHIEF EXECUTIVE OFFICER

With more than 30 years' experience in the electricity generation, retail, transmission and distribution sectors of the energy industry, Tim brings a wealth of knowledge to the role. He commenced his career as an apprentice electrical fitter mechanic in the distribution sector, and has held senior executive management roles in both privately and publicly owned enterprises across all sectors of the electricity industry and has worked in Australia and throughout South and Southeast Asia. Tim has also previously held various board positions in both domestic and international businesses.

GRANT CHORVAT

BE (HONS), FIE
AUST, CPENG,
GAICD,
MAIPM



CHIEF OPERATIONS OFFICER

Grant is an electrical engineer with extensive experience in process automation, technology and maintenance management. Grant has more than twenty years in leadership and management roles in a range of industries. Prior to joining Territory Generation, Grant managed the Tamar Valley Power Station and Bass Strait Islands facility for Hydro Tasmania.

STEVE BARTLETT

BCOM, CA,
MBA, GAICD



CHIEF FINANCIAL OFFICER

Steve is a Chartered Accountant with more than 25 years of experience across public practice, the resources industry, and the power generation industry. Steve supplements his technical accounting base with extensive commercial experience in heavy industry, covering business analysis and modelling, contractor management, supply chain management, strategic contracts negotiation and development, and business process improvement.

**ANDREW
KNEEBONE**

MBA, MAICD

**GENERAL MANAGER, COMMERCIAL AND STRATEGY**

Andrew is an experienced executive manager and Board Director across a range of utility organisations. Andrew has held a diverse range of senior executive roles, including CEO, in the Victorian, Tasmanian and Western Australian water sectors over the past 20 years. Andrew's experience encompasses customer service, operations and maintenance, finance, regulatory affairs, strategy, and governance. Andrew was the industry lead in preparing and implementing independent economic regulation to the Tasmanian Water sector.

**REBECCA
MILLS**BE (HONS), BEC,
MIE AUST**GENERAL MANAGER, NEW ENERGY AND SUSTAINABILITY**

Rebecca holds Bachelor degrees in Mechanical Engineering and Economics. Through various roles in Power and Water Corporation and Territory Generation, Rebecca has gained extensive experience in major project development and delivery, business analytics, strategy, commercial contracts and the development of the wholesale energy market.

**ROBERT
ROSS**

MAICD

**GENERAL MANAGER, PEOPLE AND SAFETY**

Robert commenced his career as an apprentice electrician and has worked in a range of executive positions within Power and Water Corporation and Territory Generation over the past 40 years. He has undertaken a range of operational courses and has a Diploma in Frontline Management. He has been a long-term representative on national and Northern Territory skills, training and advisory panels.

TERRITORY GENERATION



OVERVIEW OF THE ORGANISATION



WHO WE ARE

TERRITORY GENERATION IS A GOVERNMENT OWNED CORPORATION (GOC) AND COMMENCED OPERATIONS ON 1 JULY 2014 DUE TO THE RESTRUCTURE OF THE ELECTRICITY INDUSTRY IN THE NORTHERN TERRITORY.

Territory Generation is the largest electricity producer in the Northern Territory, owning 583MW of installed capacity and contracting an additional 37MW* from Independent Power Producers for supply to our customers.

Territory Generation produces approximately 1900GWh of electricity per year using gas, diesel and solar technologies to power the Territory's major population centres and towns. The global shift toward renewable energy is starting to take effect and this will become increasingly evident

for Territory Generation towards the end of 2017, with expectations shifting towards potential growth opportunities in the years 2018 onward. By the end of 2017, significant upgrades to its asset fleet, particularly in the Southern region, will be complete and our new Remote Operations Centre (ROC) will be operating all sites. In many ways, this period signals the end of an Old World operating model and the active transition to a more Contemporary Model.

OUR VISION

To be the trusted and respected employer and electricity generation business of choice.

OUR BUSINESS GOAL (PURPOSE)

Safely, efficiently and reliably generate electricity to sustainably contribute to the lifestyle and development of the Northern Territory.

OUR RENEWABLE AND ALTERNATIVE ENERGY VISION

That the majority of TGen's base load supply to existing markets will be from renewable energy sources by 2030.

OUR VALUES

FIRST – Focus, Integrity, Respect, Safety and Teamwork

*as at 30 June 2017

WHERE WE OPERATE

TERRITORY GENERATION BOASTS DECADES OF OPERATIONAL EXPERIENCE IN SOME OF AUSTRALIA'S MOST REMOTE AND ISOLATED REGIONS.

We own and operate the following power stations - Channel Island, Weddell, Katherine, Tennant Creek, Yulara, Kings Canyon, Ron Goodin and Owen Springs.

The Darwin/Katherine interconnected system is linked by a 132kV transmission line from Darwin to Katherine and represents three quarters of the total Territory Generation capacity. The system is supplied by the Channel Island, Weddell and Katherine power stations, as well as a Power Purchase Agreement (PPA) with Landfill Management Services (LMS) Shoal Bay.

Electricity for Alice Springs is produced at Territory Generation's Ron Goodin and Owen Springs Power Stations. By the end of 2017, the expanded Owen Springs Power Station will be fully operational and once testing is proven, the decommissioning of Ron Goodin will begin. This is expected to occur in mid-2018.

Territory Generation also owns and operates power stations at Tennant Creek, Yulara and Kings Canyon. We also work closely with independent power producers to support renewable energy initiatives with 4.1MW of solar generation procured under a PPA from the Uterne plant in Alice Springs, operated by Epuron.

PPAs that ceased during the 2016/17 year include the Pine Creek Power Station (operated by EDL) and Brewer Power Station (Central Energy) in Alice Springs.



Engine	Total Capacity (MW)	Description
DARWIN/KATHERINE REGION		
Channel Island	8 turbine sets (gas or diesel) and 1 heat recovery steam turbine	310
Weddell	3 turbine sets (gas)	129
Katherine	4 turbine sets (gas or diesel)	36.5
ALICE SPRINGS REGION		
Ron Goodin	8 reciprocating sets (2 diesel only, 6 gas or diesel) and 1 turbine (gas or diesel)	44.6
Owen Springs	3 reciprocating sets (gas or diesel) and 1 turbine (gas or diesel) *Additional – 10 new 4.1MW gas engines – commissioned end 2017	36*
TENNANT CREEK REGION		
Tennant Creek	11 reciprocating sets (5 gas, 6 diesel) and 1 turbine (gas or diesel) *Additional - 3 new 2MW gas engines - commissioned Oct 2017	16.7*
YULARA/KINGS CANYON REGION		
Yulara	10 reciprocating sets (4 gas, 5 diesel, and 1 gas or diesel)	11
Kings Canyon	3 reciprocating sets (diesel), 1 solar set	1.2



Channel Island



Weddell



Katherine



Owen Springs



Tennant Creek



Yulara



OUR ACHIEVEMENTS

TERRITORY GENERATION'S PERFORMANCE SINCE ITS INCEPTION HAS EXCEEDED EXPECTATIONS, HIGHLIGHTED BY THE FOLLOWING OVERVIEW OF KEY ACHIEVEMENTS:

- The business successfully separated from Power and Water Corporation (PWC) and operates independently. The foundations are now in place for its own stand-alone, fit for purpose IT systems and business processes.
- Embarked on an organisation-wide Transformation Project to transition to a new operational business model by the end of 2017, involving key focus areas of:
 - Upgrade of the Tennant Creek and Owen Springs Power Stations, with a total investment of \$101 million to further improve reliability, efficiency and safety.
 - Establishment of a Remote Operations Centre (ROC).
 - Design and implementation of key enabling WAN networks, data systems and unified communications.
 - Introduction of an Operator Maintainer Technician (OMT) model into the majority of operational locations.
- Due to business value created through these initiatives, there is scope to reduce wholesale prices in these regions in the future and we will also see a reduction of CO₂ emissions in these markets by approximately 20 per cent.
- Completed TGen's first draft *Renewable and Alternative Energy Strategy* in September 2016:
 - *"The majority of TGen's base-load electricity supply in each of its existing markets will be from renewable energy sources by 2030."*
- Implemented a root and branch review of safe systems of work processes including permit to work and contractor safety management systems.
- Our first wholesale pricing schedule was released to customers for implementation in July 2015 and included a significant wholesale price reduction for the Darwin/Katherine region. This price will remain flat in nominal terms until June 2018 which reflects the Corporation's confidence that it can achieve planned cost efficiencies.
- Financial performance in the first two years of operation has been solid and key financial targets have been met, however the results in the year ending 30 June 2017 have suffered from increased obligations to meet reliability targets.
- A short term gas supply agreement was executed with PWC until 2018, with work underway toward establishing a Long Term Gas Supply Agreement.
- Continued progress with the development and implementation of a number of key strategic initiatives identified to enhance efficiency and reliability of core business operations.
- Board endorsed an organisational structure enhancement, which will see a sharp focus on delivery of TGen's growth projects, including renewables and alternative technologies under the new functional area, New Energy and Sustainability.
- Implementing enhanced "Safe Systems of Work" to improve safety.
- Improved reliability due to improved asset management and maintenance, equipment upgrades, improved system monitoring, as well as co-ordination with Power and Water Corporation's System Control.
- Continuing record of 665+ days without a single-contingency under-frequency load-shed event in the Darwin/Katherine system, significantly greater than previous records.
- Engine upgrade and life extension program occurred in Katherine on time and budget.
- Electronic permit system upgraded at Channel Island Power Station (CIPS) and Weddell Power Station (WPS).
- All plant available going into Wet Season 2016-17.
- Expansion of new headquarters to include the Remote Operations Centre (ROC).
- Regional Managers, Employee and Union representatives continue to meet regularly.
- A number of constructive Generation Consultative Committee (GCC) meetings held as part of ongoing consultation on changes to the operational business model.
- Increased emphasis on internal communications.
- Board visits to all operational sites at least once per year.
- Providing an increased focus on nurturing skills and promoting diversity.

OUR STRATEGIC INTENT

TERRITORY GENERATION'S STRATEGIC INTENT IS CAPTURED EACH YEAR IN A FORMAL PROCESS OUTLINED UNDER THE GOVERNMENT OWNED CORPORATIONS ACT (GOC ACT).

As part of its requirements under the Act, the Territory Generation Board provides an agreed Statement of Corporate Intent (SCI) each financial year. This is outlined under Section 39 of the GOC Act and is generally released in May.

During 2016/17, the reporting process to the Shareholder was divided into two distinct methods – Estimates hearings in June provided an opportunity for Members of the Legislative Assembly to scrutinise the SCI; and in addition the Board and Executive will appear before the Estimates Committee again in November to answer questions regarding this Annual Report.

Both documents provide an outline of the organisation's strategic intent, however the SCI specifically details the key strategic initiatives, performance indicators and actions as well as strategic risks within the current business context. These form part of a strategic five-year plan.

In summary, the key drivers of change occurring in the external business landscape include the impending development of a new wholesale electricity market, significantly reducing forecast demand in all regions due to increased penetration of rooftop and industrial/ commercial solar installations, as well as utility-scale new entry. This continues to pose a significant threat to the business and its commercial performance.

The electricity industry is undergoing significant and rapid change globally and also locally in the Territory. The combination of the size of the market, competition, rapid change within the industry and technology are all playing a part in directly affecting Territory Generation's performance and future.

All the current data suggests this will occur within a short time frame – as early as 2021. In response, Territory Generation must continue to:

- Become more efficient to be competitive and withstand the threat posed by disruption of technology as well as any future competitors.
- Secure our future and take control of our own destiny.
- Keep up with the rapid moves globally toward a renewable energy future.
- Make an adequate financial return for our shareholder.

The need to change is not driven solely by competition. Territory Generation has a responsibility to its stakeholders (including the shareholder, customers and the community) to produce electricity as efficiently and reliably as possible.

Our focus is to "get the balance right" by replacing existing aged machinery and technology with new, state-of-the-art, world-first renewables, ensuring delivery of three key principles:

1. Reliability
2. Affordability
3. Sustainability

The key challenges faced by Territory Generation in achieving our strategic financial objectives are:

- Decreasing energy sales from traditional markets due to increasing penetration of roof top

and industrial/commercial solar installations combined with the end user focussing on energy efficiency.

- Uncertainty in regard to fuel pricing in the medium to long term. Fuel costs currently represent more than 50 per cent of Territory Generation's operating costs.

At the core of TGen's five-year plan was the establishment of a balanced scorecard of objectives, measures and actions.

The actions identified for 2017/18 include:

- Finalise review and improvement of safety management processes and documentation.
- Develop and implement a financial training program for all managers to achieve greater accountability.
- Renegotiate and restructure bilateral retail contracts and gas supply agreement.
- Unbundle the components of the customer bill including the ancillary services cost.
- Develop a dedicated function to evaluate new business models, technologies and innovation.
- Develop internal technical capability across renewable energy technologies.
- Implement the Remote Operations Centre and consolidate new operating model.
- Implementation of a sustainability framework and reporting system.

A high level implementation plan has been developed for every action to identify key activities, timing and resource requirements, and these plans will be reviewed periodically to monitor progress.

Six Key Result Areas (KRAs) were identified to define the vision and provide objectives to achieve within the first five years:

KRAs	Objectives
Safety	<ul style="list-style-type: none"> We will have an embedded behavioural based safety culture, where safety is at the core of everything we do.
Finance	<ul style="list-style-type: none"> We will target a minimum average return on equity of 10% pa to our shareholder. We will target revenue from non-traditional sources to be a minimum of 5% of total revenue.
Customer and Growth	<ul style="list-style-type: none"> We will be known to be a trusted, reliable and competitive supplier, delivering quality products and services. We will have a diversified energy related product/service portfolio and customer base.
Sustainability	<ul style="list-style-type: none"> We will have a sustainability framework and reporting system that delivers corporate sustainability including environmental improvement. We will reduce our environmental footprint from 2015 normal operations levels by 5%.
Internal Processes	<ul style="list-style-type: none"> We will be efficient, sustainable and competitive in providing products and services that meet our customers' needs.
People and Culture	<ul style="list-style-type: none"> We will have a corporate culture that attracts, retains and grows people aligned with TGen's vision and values.

Territory Generation's Statement of Corporate Intent provides a complete overview of its strategic direction and is available at territorygeneration.com.au





The new \$75 million Owen Springs Power Station starts to take shape in preparation for full operation by the end of 2017.

KEY FOCUS AREAS IN 2016/17



SECURING THE TERRITORY'S ENERGY FUTURE

IN SOME WAYS, THE FUTURE OF THE NORTHERN TERRITORY'S ENERGY SECTOR – PARTICULARLY IN REGARD TO RENEWABLES – HANGS IN THE BALANCE.

Rapid global moves to new energy have seen major shifts in technology and policy across Australia and the world that, while needing to be embraced, are also causing reliability, stability and affordability issues.

In the Northern Territory context, in late 2016 Territory Generation completed its *Renewable and Alternative Energy Vision*. This pivotal moment captures the essence of the global moves toward renewable energy.

As the custodian of more than \$500 million worth of taxpayer-owned

generation equipment, Territory Generation has made significant investments to transition to renewable energy. The Vision is:

“The majority of TGen’s base-load electricity supply in each of its existing markets will be from renewable energy sources by 2030.”

At the time, the Territory Generation Board deferred the public release of its Vision until the outcomes of the NT Government's Renewable Strategy, which is expected later in 2017. The NT Government's Renewable Expert Energy Panel was formed by the NT Government to address its own target of 50 per cent renewable energy by 2030.

Territory Generation has met with the Panel on a number of occasions since its formation and on 9 June

2017, Territory Generation lodged its final submission *Securing the NT's Energy Future* to the Panel.

In presenting information regarding its current role in the NT energy sector, as well as providing the Panel with the draft of its own Renewable Energy Strategy, Territory Generation also provided modelling for three options:

1. Business-As-Usual (BAU) approach
2. NT Electricity Market (NTEM)-style approach; and
3. “Managed Transition” approach

The preliminary modelling – which has been carried out by respected industry analysts EY and ROAM Consulting – factored in two key scenarios, of both a “no set renewable target” and “50 per cent target”, to understand where and how much renewable energy will be required, and the estimated cost.



The “no set target” model showed only 30 per cent renewable penetration would be achievable by 2030.

From this modelling, Territory Generation has proposed a Managed Transition approach, which also mirrors a number of contemporary industry reviews in other jurisdictions, including the *Independent Review into the Future Security of the National Electricity Market* (known as the Finkel Report).

This was based on some key factors:

- The NT has a world-class solar resource and is well-positioned to benefit from the rapidly-falling price of solar generation and renewable technology, such as battery storage, now lower on a per-unit basis than the comparatively high cost of generation in the NT.

- The unique opportunity that exists to transition the current ageing Territory Generation fleet to renewables, with up to 40 per cent of capacity able to be retired before 2030.

- Adherence to the NTG’s established charter of:

- Electricity assets retained in Government ownership
- Achieving 50% renewable target by 2030
- Power price increases no greater than CPI

In essence, Territory Generation believes that it can play a lead facilitator role within the NT industry to create a better outcome for all Territorians and the environment.

This approach has more of a central role for government (compared to the

NTEM-style approach), principally in managing potential market failures. As the primary generator, Territory Generation is in a unique position to transition its ageing fleet to renewables, but as experience in other jurisdictions has shown, it must be done in a balanced way – otherwise it risks compromising the security and reliability of the NT energy system. This includes not just being a provider of essential power to regions, but working with stakeholders – from the commercial sector to local community organisations – to deliver end-to-end generation solutions, including renewable projects.

*Note: The outcome of the Renewable Expert energy Panel were not released as the time of print.

Power Station Upgrades | Alice Springs



November 2016

June 2016



OSPS site pre construction

July 2016



Early site works power station in background

September 2016



Conduit installation complete

October 2016



LV conduit installation



Site overview 25/10/2016



Engine hall steel works in progress

May 2017



April 2017



Site overview



Engines in place

February 2017



Engines being delivered to Alice Springs

December 2016



Gas plant slab formwork



Top: 1st Jenbacher alternators lifted



Bottom: Jenbacher alternators all lined up

POWERFUL FUTURE FOR CENTRAL AUSTRALIA

THE PAST 12 MONTHS HAS SEEN ONE OF THE LARGEST TRANSFORMATIONS THE NORTHERN TERRITORY ELECTRICITY SYSTEM HAS EVER SEEN.

By the end of June 2017, significant progress had occurred in the \$101 million project of replacing aged electricity generators with the latest equipment, focussed predominantly in Central Australia.

The project – expected to be complete by the end of 2017 – not only replaces aged machinery, but also provides reliable power, drives down the cost of producing electricity and supports a transition to renewable energy.

Both sites in Alice Springs and Tennant Creek use state-of-the-art gas-fired reciprocating engines that improve efficiency and reliability, reduce costs, plus minimise noise and greenhouse gas emissions.

Territory Generation is also adopting cutting-edge technology designed

to help integrate solar power with the implementation of one of the largest grid-connected battery energy and storage systems currently underway in Australia.

The battery works both as a source of backup power, as well as a buffer for any sudden increase or decrease in solar power generation.

Combined with the new engines currently being installed at the Owen Springs Power Station, these initiatives will lead to a more efficient and reliable electricity supply in Alice Springs, as well as enable greater penetration of renewable energy into the grid in the future. It is expected that the new engines at the Tennant Creek Power Station will come on line in October 2017,

while Owen Springs Power Station will provide efficient and reliable gas-fired electricity generation to Alice Springs and surrounding areas from January 2018.

The Owen Springs expansion comprises 10 new high efficiency natural gas fired generation units and will replace the 50-year old Ron Goodin Power Station, which is inefficient and costly to maintain.

Once in operation, the Owen Springs Power Station will allow the Ron Goodin Power Station to be shut down and decommissioned, with the land rehabilitated and repurposed.

The investment and construction activities associated with all these projects has also created local economic stimulus through more than 60 direct

Power Station Upgrades | Tennant Creek



November 2016



Engines arrive on site

Minister McCarthy visits Tennant Creek

February 2017



Early morning slab pour

Pipe trenching

March 2017



Generator canopy progress

April 2017



Switchroom cable trays progress

June 2017



Installation of diesel engine

HV wiring

Mesh under walkways

May 2017



Site overview 15/5/2017

construction jobs, as well as indirect employment and flow-on benefits during construction through contracts to local suppliers of goods and services.

The project's principal construction contractor, Clarke Energy, engaged local businesses and contractors to supply goods and services including construction labour, plumbing and electrical, fencing, rental of construction offices, power station workshop, main gas pipeline installation, site surveys, hardware and hire equipment, site vehicles, bulk fill and other materials.

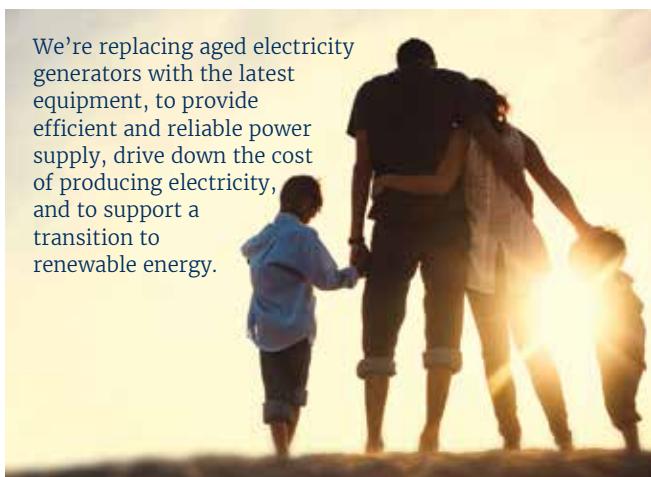
Territory Generation embarked on a campaign in late June to engage with local communities to provide important information about the projects, including letterbox drops (see right).



tenant
creek
modernising
your power
generation
alice
springs

a new era of energy supply in Central Australia

We're replacing aged electricity generators with the latest equipment, to provide efficient and reliable power supply, drive down the cost of producing electricity, and to support a transition to renewable energy.



your-generation.com.au

Clarke
Energy

Aurecon



BUSINESS UNIT:

PEOPLE AND SAFETY



PEOPLE

TERRITORY GENERATION CONTINUES TO EXPERIENCE RAPID CHANGE IN TERMS OF STRUCTURE, GENERATION TECHNOLOGIES, OPERATING PROCEDURES AND CULTURE.

Throughout this period of change Territory Generation's workforce has also become more dynamic as new roles and opportunities emerge, and previous ways of working are revised and reformed. During 2016/17 this has meant that additional resources have been deployed to support workforce training, as well as increase Territory Generation's capability to operate as a successful standalone business.

At 30 June 2017, Territory Generation had 237 full-time equivalent employees, compared with 201 at the same time in 2016.

This increase in resource numbers has been necessary to help establish more effective internal processes and systems to meet corporate obligations and deliver a number of activities previously restricted under transitional service agreements with the Power and Water Corporation.

This increase in numbers also supports our moves to more commercial arrangements as well as increasing the focus on training, safety and employee support under a new contemporary workforce model. It is anticipated that workforce numbers will also reduce over time through the management of term contracts and natural attrition.

NEW OPERATOR/ MAINTAINER MODEL

We are moving to a more commercial and contemporary operating model, which has been successfully implemented in the Katherine, Tennant Creek and Yulara regions for some time, and is now being progressively introduced at the Channel Island and Weddell Power Stations.

The new model merges the previously separate operations and maintenance roles, providing increased skills, development and career opportunities for employees filling the new operator maintainer technician roles.

The adoption of the new model also responds to the commercial realities of a rapidly changing and challenging energy environment, and reflects Territory Generation's focus on running an efficient and profitable business.

TRANSITION TO OWEN SPRINGS

The \$75 million Owen Springs Power Station expansion project is expected to progressively come online from September 2017.

The new Owen Springs Power Station will be resourced with existing employees. Offers have been made to and accepted by these employees who will operate the latest in new generation systems and technology and will be supported with training and development for the new site.

As the new Owen Springs Power Station generation capacity comes on line towards the end of 2017, it will also replace the Ron Goodin Power Station, which will be shutdown and decommissioned.

A wide variety of support services have already been made available to Ron Goodin Power Station employees to assist them in this transition, including a number of roles at the new site, retraining and redeployment, as well as at other power plants or operational sites as positions become available. This support will continue with further discussions being held with employees throughout the year. Impact on overall employee numbers is expected to be minimal and any reduction in overall numbers will be achieved through natural attrition.

RECOGNITION OF LONG SERVICE

Territory Generation recognises the long term contribution to the business made by employees who reach significant service milestones.

In 2016/17 Tim Ratcliffe was recognised with a formal “30 Years of Service” certificate in line with the NT Government recognition system. Tim Ratcliffe started his career with the then Power and Water Corporation as an apprentice in 1972. At the time, Territory Generation Chief Executive Officer Tim Duignan said Tim had “made a lifetime commitment to working in the power industry for the Northern Territory. The knowledge, skills and perspectives that 30 years’ service bring to our business are so important and we thank Tim for his outstanding contribution”.

TRAINING AND DEVELOPMENT

Territory Generation is committed to growing its people and providing development/career opportunities.

In 2016/17, Territory Generation committed to spend more than has ever been budgeted previously on training and upskilling our employees – totalling \$800,000 – an 80 per cent increase on the previous year.

A new organisation-wide Training Management System is also being implemented and is scheduled for full completion in 2017.

New Job Models for the OMT's roles have also been developed in consultation with the workforce, with this now moving forward to development of the assessment modules for these.

In addition, OMT training has now commenced in the Northern Region.

To assist with targeted and timely training and development in future, a skills matrix for all roles at TGen has also been developed in consultation with managers/staff, which is now in the final stages of approvals prior to be implemented across the business.

Development of key people within Territory Generation was also a priority during 2016/17, particularly with initiatives such as the Women Leaders Forum (WLF). Formed in September 2015, the aim of the Women Leaders Forum is to provide a sustainable pathway which will provide opportunities, mentoring and support for current and future women leaders in Territory Generation.

Territory Generation also implemented a new *Leadership Development Program* in the past year to strengthen the capability of leaders in order to build a positive culture aligned with its values.

The Program started in late 2016 and will be a continuing program over three years targeting the leaders in the organisation. The Program is fundamentally aligned to key safety and business objectives and provides key leadership coaching and mentoring for senior leaders in the organisation including ELT, Senior Leaders, Frontline Leaders and Women Leaders Forum.

“Switched On Safety” was the first module of the Leadership program that was implemented across Territory Generation.

RECOGNITION

Territory Generation employee Faisal Malik graduated from the NT Government’s *Future Leaders Program* in June 2017, which is a monumental achievement as an individual and for our corporation.

Territory Generation believes this program is an investment in the capability of talented people to deliver strategic needs for the future.

In addition, our GM New Energy and Sustainability, Rebecca Mills, was a finalist at the 2017 Women in Resources Awards.

DIVERSITY

TERRITORY GENERATION IS COMMITTED TO ENCOURAGING DIVERSITY AND INCLUSION IN THE WORKPLACE, PARTICULARLY IN NON-TRADITIONAL ROLES.

With the introduction of its inaugural Diversity Policy in 2016, the focus of the strategy was to increase inclusion and diversity in the workplace, particularly with the representation of Aboriginal and Torres Strait Islanders and Women in non-traditional roles.

During 2016/17, this Policy developed into the first sponsorship of Engineers Australia, with two scholarships offered.

The scholarships aim to cultivate critical diversity in the Northern Territory's engineering industry, and create opportunities for females and Indigenous students.

See more on page 60.

Territory Generation also worked with our apprenticeship provider for merit-based priority to be given to increasing diversity.

In addition, Territory Generation strengthened its Women Leaders Forum (WLF) initiative by establishing the Emerging Women Leaders Forum as a mentoring pathway to the WLF. The aim of the Women Leaders Forum is to provide a sustainable pathway which will provide opportunities, mentoring and support for current and future women leaders in Territory Generation.

Territory Generation recognises that diversity is not a "sometimes" issue. Diversity is an "always" issue that needs to be cultivated, supported and reinforced. By recognising people's similarities and differences, Territory Generation's workforce can become better employees and stronger leaders.

For this reason, Territory Generation held a Diversity Day across all sites on 25 May 2017, where staff were encouraged to bring a plate of food to share that represented their heritage and cultural background.

Workforce Diversity Profile:

Age Bracket	Number of employees
15-24 years	9
25-34 Years	42
35-44 Years	55
45-54 Years	77
55-64 Years	56
65 Years and over	4

3 Aboriginal and Torres Strait Islanders are employed via apprenticeships and traineeships hosting arrangements

Gender	Number of employees
Female	53
Male	190
Women in Senior Management	8

Cultural Background	Number of employees
Aboriginal and Torres Strait Islander	7
Non English Speaking Background	18



PHOEBE MICHEL

Working with large diesel engines, heavy machinery and heavy duty tools are all in a day's work for Mechanical Fitter Phoebe Michel.

Phoebe – who is featured on the front cover of the Annual Report – has come to represent both diversity and career pathways within TGen, with Phoebe achieving completion of her apprenticeship in 2017.

During Phoebe's time with TGen, she has demonstrated a commitment to excellence, strong leadership qualities and impressive personal motivation needed in the pursuit of her career.

During a typical day, Phoebe services and maintains diesel engines housed at TGen's power station in Alice Springs. Phoebe believes commitment, drive and patience are keys to performing well in her job, and she "thoroughly enjoys" supplying power to the town of Alice Springs.

TGen is actively working to better reflect the demographics of the communities in which it operates and Phoebe Michel is testament to that commitment.

SAFETY

AT TERRITORY GENERATION SAFETY IS OUR HIGHEST PRIORITY.

WE CARE ABOUT OUR PEOPLE AND WANT OUR EMPLOYEES TO BE SAFE IN EVERYTHING THEY DO. WE ARE ALSO COMMITTED TO ENSURING THE HEALTH AND SAFETY OF CONTRACTORS AND VISITORS WHO ENTER AND WORK ON OUR SITES.

The words highlighted above continued to be a core business focus for Territory Generation in 2016/17.

Territory Generation places safe behaviours and safety thinking at the core of everything, including major projects and workforce transformation programs, in order to ensure that during times of significant workplace change safety remained at top of mind for employees and contractors alike.

Territory Generation is continually seeking improvements to safety performance and awareness and has introduced new systems, protocols and procedures to promote safe behaviours and develop a positive safety culture, in order to achieve a workplace free of accidents and injuries.

Examples of the success of this approach are the achievement of over 1,000 days without a Lost Time Injury (LTI) at the Channel Island and Weddell Power Stations, and no lost time injuries recorded during 2016/17 at Tennant Creek, Yulara, Owen Springs and Katherine work sites.

That said, Territory Generation recognises that safety doesn't just rest on past results. Territory Generation is therefore constantly seeking ways to help improve safety focus and performance by encouraging all employees to identify and stop unsafe acts and work together to help implement improvements.

For the 12 months to 30 June 2017, Territory Generation achieved a Lost Time Injury Frequency Rate (LTIFR) of 2.1, compared with 4.7 for the previous year. During the period, one Lost Time Injury (LTI) was recorded.

Territory Generation encourages a strong culture of safety awareness, accompanied by an increased focus on reporting, and has reviewed frontline safety tools such as job safety and environment analysis and safe act observations and developed a new program of "Safety Interactions" to build on the current systems.

SAFE SYSTEMS OF WORK – OPERATIONS

Territory Generation completed training programs in late 2016 designed to embed the Safe Systems of Work (SSoW) protocols across the business, primarily focusing on operations.

SSoW involves an integrated approach to core elements of safety management across Territory Generation and reflects recommendations made as part of a comprehensive review of safety processes across the business.

Key elements of SSoW:

- Review and refresh Permit to Work processes, procedures and training. This project is nearing final implementation at Channel Island and Weddell power stations with a modern computerised and integrated system, while smaller and remote sites will soon have a paper-based system mirroring the computer-based system so there is just one process and system across all Territory Generation operations.
- A new Integrated Training Management System ensures that employees and contractors are current on all mandatory training and authorisations to do work under

the Permit to Work system. This resolves a key risk experienced under the previously manual and labour intensive spreadsheet systems.

- Revised new starter and site-specific induction processes, including face-to-face induction training.
- Introduction of the industry-recognised Incident Cause Analysis Method (ICAM) incident investigation methodology to improve quality of incident investigations.
- Implementation of Accredited Service Provider methodology for improved contractor safety management.

SAFETY LEADERSHIP TRAINING AND DEVELOPMENT

A number of safety-focussed Leadership Training and Development programs have been rolled out in 2016/17 across Territory Generation.

These included the *Switched on Safety* program, which helps employees understand how safety and safe behaviours are equally important at home as well as at work.

Switched on Safety focusses on people incorporating safety awareness in their personal lives to embed a safety first culture at all levels in the organisation.

A key aspect of *Switched on Safety* is giving people the skills and tools in order to develop confidence in talking about safety; and to be able to raise safety issues and opportunities for improvement in conversation and without confrontation.

DRUG AND ALCOHOL AWARENESS

Territory Generation has introduced a drug and alcohol awareness program for all sites, including all employees and contractors.

The awareness program covers the risks and dangers associated with abuse of drugs and alcohol from a personal health and well-being perspective, as well as the serious implications from an operation safety standpoint.

The new program stems from one of the key employee-led Safety Non-Negotiables regarding no person being able to work if under the influence of alcohol or drugs.

The drug and alcohol awareness program also has a strong health component that focusses on being healthy and fit for work, and ties in with the introduction of a drug and alcohol testing regime which included installation of breathalyzers for self-testing at all manned sites including HQ.

OTHER INITIATIVES

In addition, the following initiatives are being delivered to continuously improve safety across Territory Generation:

- Workplace Health and Safety Compliance Register is under development to enable robust monitoring and management of safety compliance
- Implementation of the Take 5 personal pre-task risk assessment program
- Implementation of Safety Interactions to supplement Safe Act Observation (SAOs)
- Introduction of the One Hour Rule for incident reporting
- Workplace Health and Safety internal audit framework developed
- A new Incident Management System has been introduced
- The safety benefits of personal protective equipment and associated policies are being revised and implemented with support across all sites.



SAFETY INTERACTIONS

A NEW MODEL CALLED SAFETY INTERACTIONS HAS BEEN PROPOSED TO SUPPLEMENT THE CURRENT SAFE ACT OBSERVATION (SAO) PROGRAM.

Currently working alongside the existing SAO program, Safety Interactions are designed to support and promote safety culture change through developing relationships by holding genuine safety conversations. The key is to make a habit of thinking and talking about safety.

The SAO program used in Territory Generation has been in place for over 10 years and gradually over time has lost impact. There had been little visible improvement in overall safety performance, a lack of enthusiasm, with a focus on quantity over quality and compliance rather than culture.

And so it was that the new model of Safety Interactions was developed in a draft form to take the workforce “back to basics”.

The proposed Safety Interaction program is based on the concept of engaging the “hearts and minds” of employees, contractors and visitors entering and working on Territory Generation sites; by enabling simple conversations about safety and making it personal.

WHAT ARE SAFETY INTERACTIONS?

- an interaction with another person (or group of persons) and a conversation about safety.
- can be held anywhere in the business, with any person(s) and at any time.
- not restricted to specific safety topics or process and are not reliant on observing work being conducted.
- not designated as “Safe” or “Unsafe” as an outcome. However anything that is raised as an issue during the Safety Interaction must be followed up with feedback given back to the person(s) involved.

SAFETY NON-NEGOTIABLES

Just as Safety Interactions are based on “hearts and minds”, so the same applies for Territory Generation’s Safety Non-Negotiables.

Implemented by the workforce itself, Safety Non-Negotiables are a set of six key safety rules which have been put in place to establish a standard of expected safety behaviour. These key rules target high-risk activities, behaviours or processes which have the potential to cause serious injury or fatality if not complied with.

Safety Non-Negotiables must be complied with by all persons at all times when entering and working on Territory Generation sites. Any breach will be considered a serious matter and will be fully investigated and appropriate action taken, which may include disciplinary action.



Everyone has an obligation to stop work that they believe may be unsafe.



We must always report every incident, near hit and injury.



Only operate equipment for which you are competent and authorised.



Never remove another person's Danger Tag or Personal Lock without written authorisation.



No person may work if under the influence of alcohol or drugs.



We must always correctly wear compulsory Personal Protective Equipment (PPE).

Safety non-negotiables



BUSINESS UNIT:

OPERATIONS



OPERATIONAL PERFORMANCE

TERRITORY GENERATION IS THE MAJOR SUPPLIER OF ELECTRICITY TO THE NORTHERN TERRITORY, AND USES A COMBINATION OF GAS, DIESEL AND SOLAR PANELS TO GENERATE POWER.

At 30 June 2017, Territory Generation's power assets include eight power generation facilities and 55 generating units.

In late 2017, Territory Generation plans to bring online new generating units and a battery storage system in Alice Springs, as well as new power generation units at Tennant Creek.

When the new generation units at Owen Springs are online the Ron Goodin Power Station will be shut down and decommissioned.

At that point Territory Generation will have seven power stations and 59 generation units, with a combined installed capacity of about 586MW.

Territory Generation contracted up to an additional 37MW for sale to customers from independent power producers under Power Purchase Agreements during the financial year.

In the 12 months to 30 June 2017, Territory Generation's combined output from gas, diesel and solar facilities was 1,875 Gigawatt hours (GWh) of electricity.

This compares with 1,973 GWh produced in 2015/16. The higher dispatch in 2015/16 was due in part to the increased use of cooling equipment such as air conditioners and refrigeration during hot and dry conditions in Northern Australia from February through to June.

During 2016/17 Territory Generation did not achieve its combined efficiency target due to a number of reasons including an increase in ancillary service requirements and an extended outage on the combined cycle unit at Channel Island.

RELIABILITY ACHIEVEMENTS

A strong focus on preventative maintenance for power generation assets continues to deliver significant gains in the reliability of Territory Generation's power supply.

The 2016/17 year also saw Territory Generation set another new reliability record for the Darwin/Katherine system. The new record for the longest run without a single-contingency under-frequency load shed event in the Darwin-Katherine interconnected system was 665 days at 30 June 2017.

Improved reliability is due to a range of factors including improved accuracy of system performance monitoring, effective liaison between Territory Generation and Power and Water Corporation's System Control, a comprehensive asset management and maintenance schedule, and upgrades to critical generation equipment.

The planned introduction of a 5MW battery storage solution in early 2018 will improve reliability of power generation in Alice Springs, which has higher penetration of solar renewable energy. The battery will act as a buffer to smooth variation in solar power generation.

Further reliability improvements in central Australian power supply will be delivered through new power generation units coming online in late 2017 at the Owen Springs and Tennant Creek power stations.

As part of Territory Generation's commitment to safety within its operations, the former incident management system is being replaced by MyHub – our new Incident Management System. This exciting milestone incorporated testing and training staff in system functionality, its business workflows and the general usability of the new system.

RIGHT PEOPLE WITH THE RIGHT SKILLS

Territory Generation is investing unprecedented time and money in the development of its people. This includes the establishment of a development program where Territory Generation has established a systematic approach to ensuring it has Operator Maintainer Technicians with the right competencies in place. In addition, Territory Generation has created a formal career path for employees and has freed up the capacity required to resource the exciting new Remote Operations Centre.

PUTTING THE HEAT ON ASSET MANAGEMENT

Following a comprehensive focus on scheduled and preventative maintenance on generation assets over the past 12 months, Territory Generation's new Asset Management System (AMS) has been revised.

The AMS details activities and priorities for operations, maintenance, and capital expenditure that are designed to ensure Territory Generation assets and facilities are maintained and operated for peak efficiency.

The Strategic Asset Management Plan (SAMP) generates a risk based "heat map" showing areas of focus for setting maintenance priorities, for example, the recent completion of maintenance on transformers at the Channel Island Power Station.

A key element for the success of this approach is the way in which maintenance and operational activities are aligned with Territory Generation's strategic planning and budget cycles, and resource planning activities.

This means that planned outages, shutdowns and other critical maintenance activities can be planned to occur at the most appropriate times to minimise disruption to customers and maximise economic performance.

METERING

Territory Generation's new metering system has commenced at all sites and provided the first full year of metering data in both southern and northern regions in 2016/17.

The metering system provides precise information about electricity sent out (exported) at the network point of exit from Territory Generation power stations.

The meters provide real-time data on individual power station performance and the amount of power being exported, which in turn provides greater accuracy for wholesale billing.



TRANSFORMATION PROJECT

THE TRANSFORMATION PROJECT IS A KEY PLATFORM OF OUR STRATEGIC PLAN, DEVELOPED AFTER AN EXTENSIVE STRATEGIC PLANNING PROCESS INVOLVING STAFF FROM ACROSS THE BUSINESS.

The project was designed to change the operations and maintenance strategy toward a more sustainable future. Ultimately, it acted as the overarching program that recognises the generation industry is going through unheralded change; and to set the structure for Territory Generation to move with that change.

The Transformation Project included the following:

- Upgrading the Owen Springs and Tennant Creek Power Stations.
- Establishment of a Remote Operations Centre (ROC) to operate all Territory Generation sites.
- The design and implementation of data networks throughout the business to capture, analyse and utilise data quickly, reliably and securely.
- Expanding the existing Operator Maintainer roles and opportunities, as utilised at some existing sites, for the Owen Springs and Channel Island / Weddell sites.

All of these projects are linked together; and with other key elements of the business – success is dependent on all of them being implemented.

Underpinning some of these moves is the significant efforts toward improving the reliability of generation assets. This includes replacing communications infrastructure, replacing and modernising ageing assets and introducing a centralised operating model in line with industry best practice.

Not only were these initiatives introduced to address some of the challenges facing the industry and to create a more sustainable future, but to place the focus on new commercially-beneficial and job-related growth opportunities.

Towards the end of 2017, as many of these initiatives are either now underway or nearing completion, the Transformation Project as it has been known will complete a transition to Business As Usual (BAU).

EMPLOYEE UPDATES AND COMMUNICATIONS

During the key transition stages of the Transformation Project, significant consultation was undertaken to discuss the proposed changes with employees and to incorporate employee input and feedback. The consultation feedback period commenced in August 2016.

Employees were encouraged to view information in relation to the proposed changes which were updated frequently, with hard copies of information made available at all sites.

All employees were invited to provide feedback and input throughout the process, including employee briefing sessions with opportunities to ask questions and discuss responses.

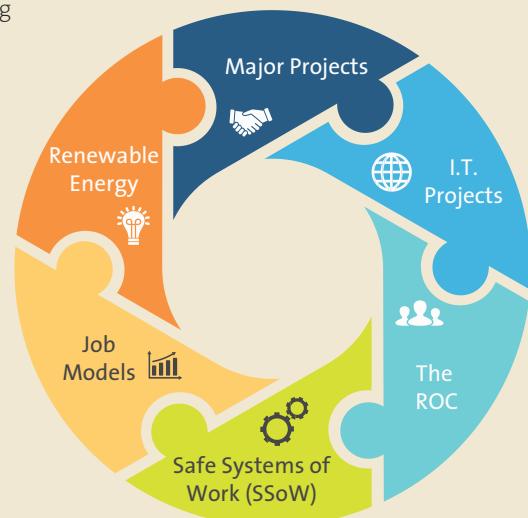
To support employees throughout these changes, regular employee communication updates were provided through a number of different forums, including:

- Generation Consultative Committee (GCC)
- Employee Workshops
- Transformation email address for feedback and comments
- Frequently Asked Questions
- Intranet updates
- Hard copy newsletters
- Employee email updates
- Video updates
- Tool box meetings
- Regional manager and Station Manager updates

- Employee and supervisor discussions regarding new training opportunities
- Weekly video updates (known as ELT Comms) between all sites to share latest information.

EMPLOYEE SUPPORT

A number of additional initiatives beyond those listed above were also introduced to support employees through these changes, including providing employee support programs, such as resilience and change management awareness and training as well as other tailored training and development programs that are aligned to new employment opportunities.



The pieces of the Transformation Project all fit together and are interdependent

EXPRESSIONS OF INTEREST (EOI) PROCESS

An Expression of Interest process to gauge the interest of employees in the new Operating Model was held from 20 February to 10 March 2017.

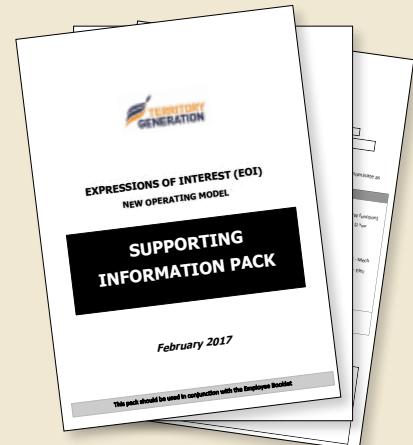
A positive response was received from Channel Island Power Station (CIPS) and for the Remote Operations Centre (ROC) positions, while insufficient responses were received from

Alice Springs-based employees for the new roles and Operating Model at Owen Springs Power Station (OSPS). Decisions were then made due to critical operational timelines that the proposed OMT Operating Model for OSPS would not proceed in the near term.

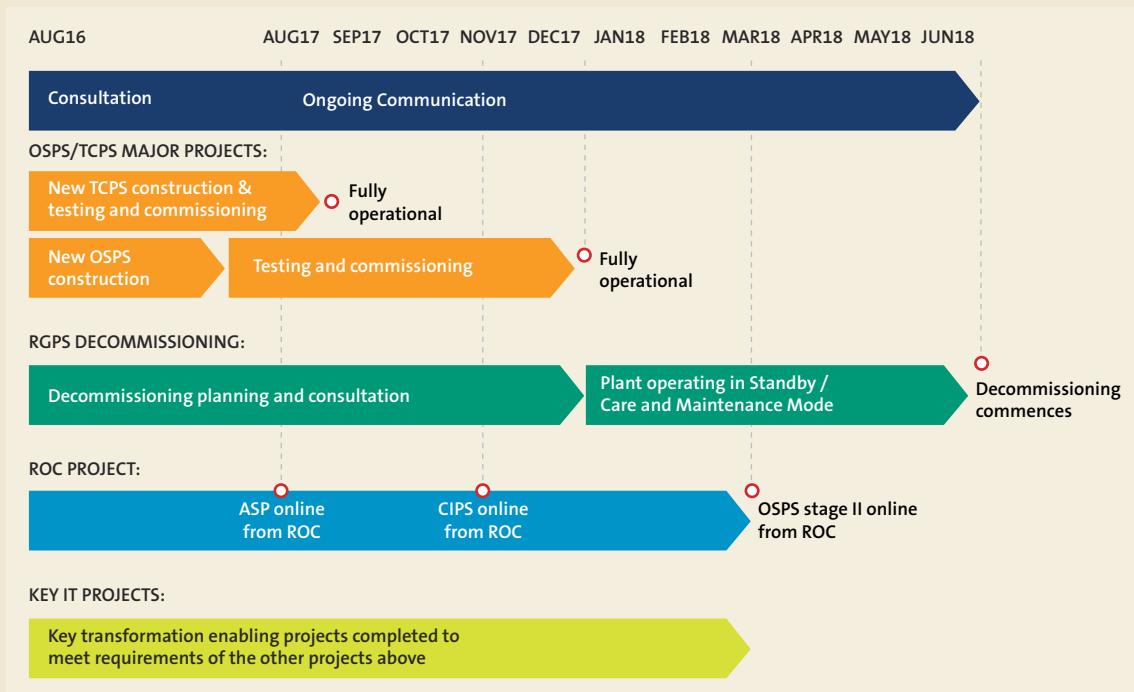
Letters of Offer were provided for all employees successful in positions at CIPS and the ROC and as at

30 June 2017, 100 per cent of ROC positions have been accepted, the vast majority of CIPS positions accepted and all of the OSPS recruitment finalised.

The appointment of long-time Territory Generation employee Steve Bell as the new Owen Springs Station Manager in July heralded the start of a new era for the region, as the transition to the new power supply for Alice Springs occurs at the end of this year.



TRANSFORMATION PROJECT TIMELINE



BUSINESS UNIT:

NEW ENERGY AND SUSTAINABILITY



NEW ENERGY

TERRITORY GENERATION'S NEW ENERGY AND SUSTAINABILITY BUSINESS UNIT REFLECTS THE COMPANY'S LONG TERM VISION FOR POWER GENERATION IN THE NORTHERN TERRITORY THAT INTEGRATES THE LATEST NEW POWER GENERATION TECHNOLOGIES WITH SUSTAINABLE BUSINESS PRACTICES.

In 2016/17 Territory Generation made significant progress in the transformation of generation capability with the introduction of new high efficiency gas-fired assets and state of the art battery storage technology. In addition the company adopted a new and comprehensive approach to embedding sustainability concepts into all aspects of business activities. The aim is to successfully manage the transition to new, sustainable sources of energy by helping to deliver the Territory Government's renewable energy target of 50 per cent by 2030, and support for the 2030 Paris Climate Agreement.

MAJOR PROJECTS

Territory Generation's \$101 million Major Capital Works Program is nearing completion.

The program comprises two main construction projects:

- A \$75 million generation capacity upgrade at Owen Springs Power Station
- A \$26 million augmentation of the Tennant Creek Power Station.

Both projects use state-of-the-art gas-fired reciprocating engines that improve efficiency and reliability, reduce costs, and minimise noise and greenhouse gas emissions.

The upgrades and renewal of generation capacity will help ensure Territory Generation can continue to meet future electricity demand reliably and efficiently.

This will also provide the key transitioning technology to enable greater penetration of renewable energy into the grid in the future.

The new generation capacity at Owen Springs will replace the Ron Goodin Power Station, which was commissioned in 1973 and has

reached the end of its useful life.

The Ron Goodin Power Station will be shut down, decommissioned, and the site rehabilitated or repurposed.

Expansion of the Owen Springs Power Station involves installation of 10 x 4.1MW high efficiency reciprocating gas engine generators, and will boost total generation capacity to 77MW.

At Tennant Creek three 2MW gas-fired spark ignition reciprocating engines and a 1.5MW diesel fired reciprocating engine have been installed, improving reliability and replacing old equipment.

The new generation equipment at Owen Springs and Tennant Creek is expected to be commissioned in 2017 and online in 2018.

BATTERY POWER

Territory Generation's commitment to new energy recognises the increasing importance of solar power across the Northern Territory and particularly in Alice Springs and central Australia more broadly.

The variable nature of solar generation, and the inefficiencies associated with the need for "spinning generation" to be on stand-by to manage solar load fluctuations, presented operational challenges.

Territory Generation is a national leader in the early adoption of cutting edge technology designed to help integrate solar power with the implementation of a battery energy and storage system.

The 5MW battery will be installed in Alice Springs and will provide a near-instantaneous response to variation in solar load, and help deliver significantly increased reliability of power supply. See page 48.



GENERATIONAL CHANGE WITH NEW BATTERY ENERGY STORAGE

ALICE SPRINGS HAS BECOME ONE OF AUSTRALIA'S LEADING EDGE TECHNOLOGY HOT-SPOTS WITH CONFIRMATION OF TERRITORY GENERATION'S FIVE MEGAWATT BATTERY STORAGE PROJECT.

Vector Energy was announced in June as the preferred supplier to install a 5MW Battery Energy Storage System (BESS) that will accelerate Alice Springs' transition to a renewable energy future, and complement the region's high use of solar power.

The move further establishes Territory Generation as the key enabler for the Northern Territory Government's aim to achieve 50 per cent renewable energy by 2030.

The 5MW BESS is one of the largest grid-connected storage solutions in Australia.

Installation of the battery system is timed to coincide with the shift from the ageing Ron Goodin Power Station to the upgraded Owen Springs Power Station in early 2018. Territory Generation Chief Executive Officer Tim Duignan said the rapid uptake of solar power in Alice Springs required a new and flexible approach to generation technology.

"Territory Generation's adoption of battery storage technology reflects a pragmatic understanding of what our customers and the broader community expects from the future of electricity generation in Alice Springs," Tim said.

"While our new gas-fired power station at Owen Springs provides a necessary replacement for the old power plant, the new battery storage system will provide essential stability to manage the continued adoption of solar power."

"We're replacing aged electricity generators with the latest equipment, to provide efficient and reliable power supply, drive down the cost of producing electricity and to support a transition to renewable energy."

The battery system will provide a near-instantaneous response to variation in solar load, and help deliver significantly increased reliability of power supply. The battery works both as a source of backup power, as well as a buffer for any sudden increase or decrease in solar power generation.

The \$8.3 million cost of the battery system is expected to be recouped within four to five years due to efficiencies and fuel savings.



*Above: Representatives from Vector Energy meet with Territory Generation at the site of the new battery storage system at Sadadeen Valley in Alice Springs.
Right: The BESS system.*



SUSTAINABILITY

TERRITORY GENERATION HAS EMBRACED SUSTAINABILITY AS A KEY PRINCIPLE OF BUSINESS OPERATIONS.

A new Sustainability Committee was established during 2016/17 with input from Board members, management and staff, to align Territory Generation with the United Nations' sustainability objective: *Transforming our world: the 2030 Agenda for Sustainable Development*.

The focus on sustainability reflects the Northern Territory Government's goal of 50 per cent renewable energy by 2030, as well as Territory Generation's commitment to the 2030 Paris agreement.

A key action is to develop TGen's first Sustainability Report, timed for release with this Annual Report.

The Sustainability Report will initially focus on TGen's environmental performance and the development of a plan to reduce CO₂ emissions specifically and our overall environmental footprint more generally.

The focus will be progressively expanded in subsequent years. To develop and focus our sustainability objectives and actions, we are using the United Nations Sustainable Development Goals as a framework.

The United Nations 2030 Agenda for Sustainable Development consists of 17 Sustainable Development Goals (SDGs) with 169 targets between them.

Territory Generation has developed a Sustainability Mind Map addressing the 17 SDGs (refer next page) and distributed to all Senior Managers to ensure that sustainability stays "live" within the business. This mind map will be further developed with specific Sustainability Objectives and initiatives being incorporated in Territory Generation's strategic plan from 2016/17 onward.

Territory Generation has further enhanced its sustainability focus by having the Board and four staff undertake specific training in this area.

Territory Generation also has indirect projects that affect the sustainability objective within its regulatory requirements, such as National Greenhouse and Energy Reporting, as well as reporting to the National Pollutant Inventory.

Territory Generation has developed accredited systems, policies and procedures which guide its actions at company and individual levels, and provide a clear framework for achieving best practice in environmental performance.

Some of the sustainable initiatives that Territory Generation has already committed to include the establishment of a new Class A sewage treatment plant at Channel Island Power Station, introduction of solar panels covering the staff carpark at Owen Springs Power Station, the launch of recycling programs and conversion of fluorescent lighting to LED technologies at various sites.

Territory Generation's focus is to continue to implement sustainable initiatives to reduce its reliance on natural resources, save money and ensure it leads the way in industry best practice. Territory Generation intends to achieve this through ongoing recycling programs, initiatives to reduce water and chemical usage, improvements to efficiencies and the implementation of new and renewable technologies.

Reductions in both emissions and energy consumption will be achieved by improved maintenance routines, new, more efficient generation assets at Owen Springs and Tennant Creek Power Stations, as well as the eventual decommissioning of the ageing Ron Goodin Power Station in Alice Springs.





SUSTAINABILITY IN ACTION

ENVIRONMENT

Territory Generation places high priority on protecting the environment and minimising operational impacts. We have developed accredited systems, policies and procedures that guide our actions at company and individual levels, and provide a clear framework for achieving best practice in environmental performance.

As a business our goal is to minimise our impact on the environment by encouraging a proactive workplace culture where all employees and contractors support the daily behaviours required to maintain the highest environmental standards.

Vehicle use and construction activities also contribute to greenhouse gas emissions, and large volumes of water are required for cooling at our Channel Island Power Station.

In the 12 months to 30 June 2017 there was one reportable environmental incident, involving a diesel spill at Yulara. The spill was contained, reported to the Northern Territory Environment Protection Authority (NTEPA) and appropriate remediation works are currently underway.

NATIONAL GREENHOUSE AND ENERGY REPORTING

Natural gas is the primary fuel used by Territory Generation to operate power stations to generate electricity. Electricity produced from gas produces 50 per cent to 70 per cent less greenhouse gas emissions than current coal-fired power generation facilities. (*Australian Petroleum Production & Exploration Association*)

We also transport, store and use diesel fuel for use in generation units that require diesel injection for effective gas combustion, as well as for use in diesel powered generators.

Territory Generation is registered under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act). Under the NGER Act, Territory Generation reports annually on greenhouse gas emissions, energy production and energy consumption on all facilities under our operational control.

More than 80 per cent of total emissions are generated by Territory Generation's four largest power plants – Channel Island Power Station, Weddell Power Station, Ron Goodin Power Station and Owen Springs Power Station.

MANAGING WASTEWATER

The Channel Island Power Station uses water in the cooling towers to manage heat produced as a by-product of electricity generation. This water is released subject to conditions outlined in Territory Generation's Channel Island Power Station wastewater discharge licence. Used water is held in retaining ponds and tested monthly for compliance with Northern Territory Environment Protection Authority water quality parameters prior to release.

In November 2016 the Channel Island evaporation ponds were re-lined. Old liners were removed and replaced with new liners, one pond at a time due to operational requirements.

WEED MANAGEMENT

Territory Generation undertakes regular weed management activities at sites on Channel Island and in Alice Springs.

Management activities include control and mapping of weeds, and removal of weeds using approved weed control chemicals and by hand.

ASBESTOS REMOVAL

Territory Generation has an Asbestos Management Plan to ensure that all practicable steps are taken to prevent or minimise the risk of exposure to Asbestos Containing Material, and maintains an Asbestos Register for all Territory Generation sites, in line with Commonwealth legislation.

BUSINESS UNIT:

COMMERCIAL AND STRATEGY

COMMERCIAL AND STRATEGY

TERRITORY GENERATION DEVELOPS AND IMPLEMENTS CLEAR COMMERCIAL AND STRATEGIC OBJECTIVES THAT ADDRESS THE DYNAMIC ECONOMIC, ENVIRONMENTAL AND TECHNOLOGICAL CHALLENGES OF A RAPIDLY CHANGING ENERGY LANDSCAPE.

Territory Generation's Commercial and Strategy business unit is responsible for managing the organisation's Revenue and Commercial function, standardised Strategic Planning Process, development of the Remote Operations Centre (ROC) and enabling information technology infrastructure.

The Strategic Planning Process involves ongoing consultations with all parts of Territory Generation in order to identify 'mission critical' business activities, to develop and review short, medium and long-term business goals, and set out clear strategic direction to achieve those goals.

The Strategic Planning Process supports and is integrated with the development of Territory Generation's annual Statement of Corporate Intent (SCI), which defines the performance contract with the Northern Territory Government, and sets specific targets for business achievements in the coming year. In addition, the Strategic Planning Process forms the basis for Territory Generation's rolling Five-Year Plan, which includes specific near-term business performance targets and is updated annually.

Central to Territory Generation's focus on strategic guidance for commercially astute business outcomes is access to accurate, real-time data about generation asset performance provided by the ROC.

With the ROC coming online in August 2017, Territory Generation will be able to accurately monitor, control and optimise the performance of generation assets and technology.

In 2016/17, this planning process was extended to encompass development of Territory Generation's Growth Strategy, which adopts a "three horizon" outlook comprising short-term (five years), medium-term (10 years) and long-term (15 years).

The Growth Strategy examines business development options for evolution of the business in the next five years through the creation and integration of innovative power supply solutions. These solutions are emerging from the adoption of new generation technologies and the increasing take-up of renewable energy, opportunities to collaborate with research organisations and funding bodies and demand from growth industries including mining, defence, and aquaculture.

Information and Communication technology is a key enabler of business efficiency and TGen has embarked on a multi-million dollar program of works to develop world-class infrastructure in terms of reliability, redundancy and security to underpin the development of the business.

SUPPORTING THE TERRITORY'S ENERGY FUTURE

A key driver for the development of a long-term, strategic outlook for Territory Generation has been the Northern Territory Government's commitment to a target of 50 per cent renewable energy by 2030.

In response Territory Generation has developed a Renewables and Alternative Energy Strategy and implementation Roadmap, designed to position Territory Generation as the key enabler of the 2030 target. This was further developed in a landmark report which was provided to the NT Government's Expert Renewable Energy Panel entitled *Securing the NT's Energy Future*. In preparing the report, TGen and its advisors undertook comprehensive financial, economic and market-based modelling and analysis of the options for achieving the 2030 Renewable Target to determine the lowest cost alternative.

The strategy sees Territory Generation assisting in managing the transition to the 2030 target, while providing a safety net to ensure reliable, secure power is delivered at an affordable cost. Refer to Focus on page 28 for more.



REMOTE OPERATIONS CENTRE

SIGNIFICANT PROGRESS HAS BEEN MADE TOWARDS TERRITORY GENERATION'S NEW \$9 MILLION REMOTE OPERATIONS CENTRE (ROC).

The Remote Operations Centre provides the business with accurate, real-time control of generation assets from Darwin to Alice Springs.

Connected by an \$11 million state-of-the-art high speed data network, and protected by robust security and system redundancy, the ROC will monitor real-time data relating to the operation of Territory Generation's gas, diesel, solar and battery power generation options.

Commercial and Strategy General Manager Andrew Kneebone said the inclusion of the ROC within the commercial group reflected Territory Generation's deliberate focus on the commercial outcomes enabled by access to accurate data and precise

control over the deployment of the generation fleet to ensure the lowest cost of energy generation is achieved.

"Usually you find operations centres managed from a technology or operations perspective," Andrew said, "But Territory Generation recognises that the visibility and control provided by the ROC gives us a crucial commercial and strategic advantage."

"We are able to respond faster to network changes, accommodate demand fluctuations, improve the integration of solar power, and ultimately make better business decisions."

The ROC is located within Territory Generation's new Corporate Head Office

building at Berrimah. As part of built-in redundancy and system security, a back-up centre can be activated in the Owen Springs Power Station to take over in the event of a cyclone or other disaster affecting Darwin.

Territory Generation's new internal high-speed fibre communication and server network will link the ROC to all Territory Generation work sites and generation assets by mid-2018.

The ROC will monitor and allow remote operation of generation assets, delivering increased generation efficiency, employee safety, improved network stability, faster response times to network changes and improved coordination with the system controller.



BUSINESS UNIT:

CORPORATE RISK, GOVERNANCE AND COMMUNICATIONS

RISK AND GOVERNANCE

DURING 2016/17 TERRITORY GENERATION CONTINUED THE PROCESS OF ESTABLISHING INTERNAL CAPABILITIES IN ORDER TO FUNCTION EFFECTIVELY AS A STANDALONE BUSINESS.

Corporate services previously provided under a Transitional Services Agreement (TSA) with Power and Water Corporation are now principally delivered through new Territory Generation processes and supporting systems.

In addition, structural reform has seen functions and projects previously managed by the Business Services unit transferred to appropriate Territory Generation business units. Facilities management and insurance functions have been transferred to Finance; major projects, environment and sustainability transferred to New Energy and Sustainability; the Remote Operations Centre and supporting IT systems transferred to Commercial and Strategy.

The remaining functions of the Business Services Unit continued under the leadership of the General Counsel and Company Secretary within the Office of the Chief Executive Officer. Those functions are legal and corporate governance, company secretariat, communication and external stakeholder management, ministerial liaison, risk and compliance, documents and records management.

These changes reflect Territory Generation's continued transformation under power industry reforms initiated by the Northern Territory Government in 2014.

These power industry reforms involved splitting the then Power and Water Corporation into three government-owned Corporations; Power and Water Corporation, a Power Retail Corporation (Jacana Energy) and a Power Generation Corporation (Territory Generation).

MANAGING RISK

Territory Generation is a critical supplier of wholesale electricity, an essential service necessary for safe and productive operation of Northern Territory communities and businesses.

Territory Generation is exposed to a wide range of risks associated with the generation of electricity, including competition, disruptive

technology, health and safety, information technology and security.

Territory Generation is also subject to specific legal requirements, including but not limited to Commonwealth and Northern Territory legislation, regulations, licences, standards and codes.

This includes Territory Generation's compliance with Part 9 of the *Information Act*, which sets out the obligations, standards and management of our records and archives systems.

In addition, Territory Generation achieves strategic business objectives, reduces organisational risks and ensures compliance with legal and regulatory obligations through a comprehensive risk review, identification and management framework.

The Territory Generation Audit and Risk Committee is responsible for the oversight of financial reporting, the application of accounting policies, business policies and practices, legal and regulatory compliance, internal control and risk management systems, ensuring effective internal and external audit functions and communication between the Board and the external and internal auditors.

During 2016/17 Territory Generation developed a new Incident Management System, a Risk and Compliance Management System, and also introduced a new Document Management Policy and Procedure.

GOVERNANCE AND OPERATING STRUCTURE

Territory Generation is a government-owned corporation established to undertake commercial activities (generation of wholesale electricity). Territory Generation's business is governed by the *Government Owned Corporations Act*, the *Power Generation Corporation Act* and its generation licence, issued by the Utilities Commission, and was incorporated to provide sustainable financial returns to the Northern Territory Government.

Territory Generation has a shareholding Minister and a portfolio Minister.

The Honourable Nicole Susan Manison MLA, the Treasurer, is the shareholding Minister and the Honourable Gerald Francis McCarthy MLA, Minister for Essential Services, is the portfolio Minister.

The Territory Generation Board is responsible to the shareholding Minister for providing strategic direction, accountability of management, corporate performance and corporate governance of Territory Generation.

Each year Territory Generation produces a Statement of Corporate Intent (SCI) which sets out agreed objectives, strategies, financial targets and any other matters that may be agreed on by the shareholding Minister and the Board. The 2017/18 SCI has been presented and approved by the Northern Territory Government.

The SCI provides the formal basis for the development of Territory Generation's strategic planning and operational activities.

In accordance with the *Government Owned Corporations Act*, the Auditor-General of the Northern Territory is responsible for the audit of the Corporation's financial statements.

BOARD COMMITTEES

The Territory Generation Audit and Risk Committee and the People and Safety Committee have been established by the Board to provide close scrutiny and additional oversight in areas of key significance.

The Audit and Risk Committee provides for financial scrutiny, identifies and mitigates key risks and ensures corporate compliance is maintained.

The People and Safety Committee provides a forum for developing safety leadership and human resource planning, and a proactive safety culture by ensuring that safety and human resource policies, practices and systems are developed, implemented and monitored effectively.



COMMUNICATIONS

INCREASED EFFORTS IN COMMUNICATIONS AND STAKEHOLDER ENGAGEMENT WERE UNDERTAKEN IN 2016/17.

With the organisation entering its third year, 2016/17 saw a consolidation of effort toward communications both internally and externally.

This also coincided with increased requirements as part of the larger Transformation Project to ensure that employees were receiving regular updates across all facets of the transition.

A revitalised, regular weekly newsletter started in earnest in late 2016, allowing business units to share stories and to also provide employees with

information about what external issues were affecting the organisation.

The past year also included the launch of the “your generation” campaign in the community highlighting the significant events and milestones around the asset replacement in Tennant Creek and Alice Springs. A new dynamic website was also launched with image galleries and other latest news heralding Territory Generation’s work.

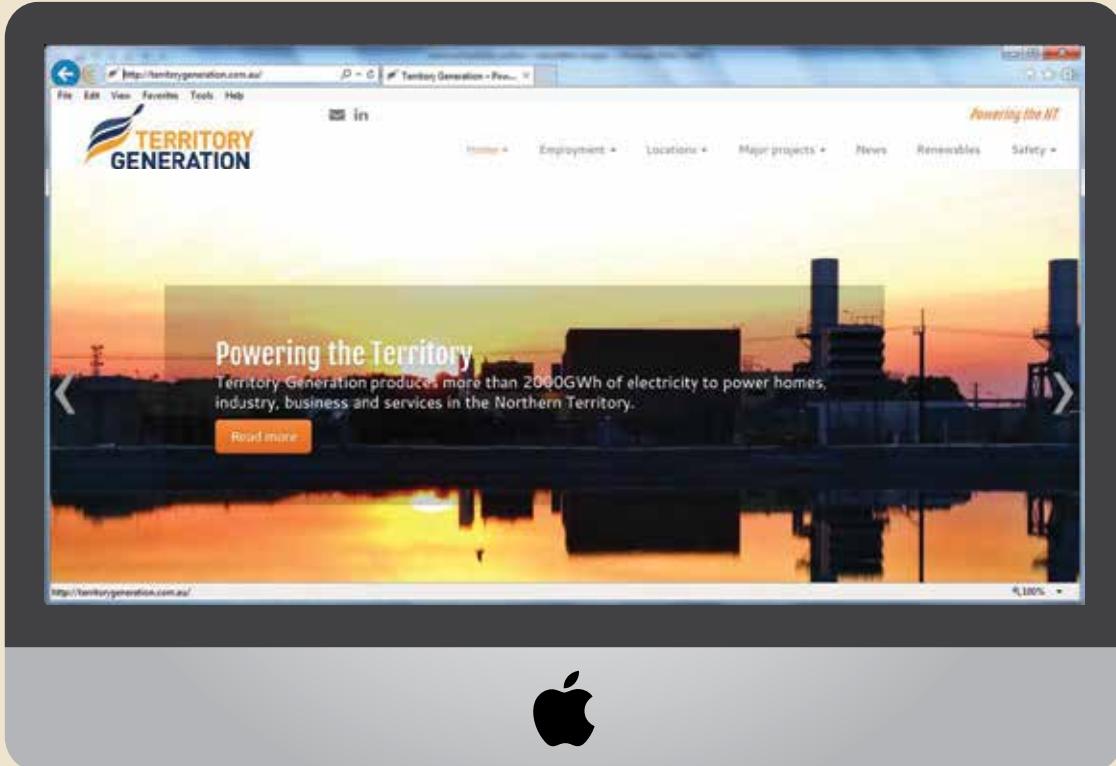
In addition, increased efforts were placed on more visual platforms,

highlighted by a CEO-led video in December 2016 which provided background to the changes occurring within generation and an overview of the transition of the organisation. This was supported by ongoing Territory-wide site tours by the CEO.

Communications support also included crisis events, projects, sponsorship, media training, publications such as the Statement of Corporate Intent and the Annual Report, as well as stakeholder engagement including Ministerial liaison.



Multiple communication devices are always being utilised including video, newsletter and digital (intranet/internet)



SUPPORT OF INDUSTRY, COMMUNITY AND CHARITY ORGANISATIONS



(from left) Engineers Australia General Manager Mark Monaghan, Scholarship recipient Shannon Fuller, NT Minister for Education Eva Lawler and TGen CEO Tim Duignan

ENGINEERS AUSTRALIA SCHOLARSHIP

Territory Generation is committed to its corporate social responsibility, with the overall aim to achieve a positive impact on society as a whole while maximising the alignment of shared values for the business, its employees, shareholders and stakeholders.

Territory Generation sponsored Engineers Australia pursuant to its Diversity Policy. In doing so, two

scholarships were offered to increase the representation of Aboriginal and Torres Strait Islanders and women in non-traditional roles.

The scholarships cultivate critical diversity in the Northern Territory's engineering industry, and create opportunities for females and Indigenous students.



ENGINEERS
AUSTRALIA



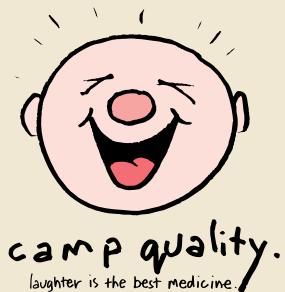
NATIONAL SCIENCE AND ENGINEERING CHALLENGE

Territory Generation was proud to support the Northern Territory's entrant in the 2016 National Science and Engineering Challenge, Our Lady of the Sacred Heart Catholic College (OLSH) in Alice Springs. A team of 27 students from OLSH Alice Springs competed in Hobart on October 2016, flying

the Territory flag against high schools from across Australia. The challenge was introduced to encourage higher education in maths and science, with OLSH winning the Central Australian inter-school competition in April. After a separate event in Darwin, OLSH finished with the highest number of points in the Territory.

The students were involved in various mind-bending activities such as creating a bionic hand, designing a city electrical grid, building an earthquake-proof tower and manufacturing an extra-terrestrial exploration vehicle. This was all achieved with everyday items such as rubber bands, straws, string, tape and wood.





CAMP QUALITY GOLF DAY

For some decades, a charity golf day targeted at public sector employees is held every year with a nominated charity as the beneficiary. In June 2017, Territory Generation supported this event by encouraging staff participation in the annual golf day, with all proceeds raised donated to Camp Quality.



CareFlight

CAREFLIGHT

With a shared commitment to helping people in the Northern Territory, and the communities in which it lives, works and operates, Territory Generation's new partnership with CareFlight is focused on the joint mission of both organisations in helping to keep Territorians safe and well.

Building on Territory Generation's reputation as a good corporate citizen, the partnership, commencing in August 2017, will see support for CareFlight's work in the Northern Territory through a combination of direct funding of assets, events, programs and corporate volunteering, including the CareFlight NT Rescue Helicopter.

Territory Generation and CareFlight's shared corporate values of trust, respect, safety and reliability form the basis of what should be a highly rewarding, sustainable relationship, that will deliver valuable benefits to the people of the Northern Territory.



Territory Generation is thrilled to enter into this new partnership with CareFlight and it looks forward to the shared success of both organisations in the future years to come. The sponsorship of CareFlight's Darwin-based Rescue Helicopter is for a minimum of three years.

Territory Generation Chief Executive Tim Duignan said the cost of injury and trauma in the Territory is more than triple the national average and rapid response was key to survival and to minimise injury.

"Evidence shows the severity of injury can be lessened by reducing the time it takes emergency medical services to start treating injured people," Mr Duignan said.

"Rapid medical intervention, particularly for people with internal, spinal or head injuries, can save lives and reduce the risk of catastrophic and permanent impairment. CareFlight's rapid response capability supports Territory Generation's vision as safety as its number one priority for its workforce.

"The work done by CareFlight further supports our understanding of the unique challenges created by great distance and remoteness for communities in the Top End, as Territory Generation also operates in regional and remote areas."

The helicopter will now be known as the CareFlight Territory Generation Rescue Helicopter.



BUSINESS UNIT:

FINANCE

FINANCIAL PERFORMANCE

IN A YEAR OF SIGNIFICANT CHANGE, TERRITORY GENERATION HAS CONTINUED TO INVEST IN OUR FOUNDATION SYSTEMS, IN OUR EXISTING FLEET, IN OUR MAJOR PROJECTS, AND IN OUR WORKFORCE.

In line with projected forecasts, overall profit declined compared with previous years as Territory Generation directed resources towards major projects, information technology upgrades, preventative maintenance programs, and the development and introduction of a new operator/maintainer technician model. This combined with reduced electricity sales, increasing input costs and additional System Control reliability requirements resulted in a loss for the financial year.

Reduced electricity demand across all regions was the primary driver behind a 3.9% decrease (\$12.0 million) in total revenue from electricity sales for the 12 months ended 30 June 2017 to \$294.6 million, compared with \$306.6 million the previous year. The freeze on our bundled wholesale pricing in the Darwin-Katherine region, implemented from 1 July 2015 and continuing until 30 June 2018 as reported last year, did not allow a significant offset to this reduced demand.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$33.4 million (2015/16: \$59.2 million). The net loss for the year is \$0.6 million, compared with a profit for 2015/16 of \$16.7 million. As a result of the loss, Territory Generation is not in a position to pay a dividend to the Northern Territory Government.

COSTS

The purchase of fuel (gas and diesel), water and other supplies necessary for the operation of our generation assets continue to represent the principal operating costs for Territory Generation. Energy costs remained flat for the year at \$260m, despite the significant reduction in electricity demand, primarily due to an increased

requirement for ancillary services such as spinning reserve and inertia. These increased ancillary services, combined with increased investment in both plant maintenance and our people, in addition to the continued increases in the costs of fuel and other direct inputs, was somewhat offset by the cessation during the year of two of our Power Purchase Agreements (PPAs).

During 2016/17, Territory Generation continued to implement a range of development activities necessary to realise the strategic vision for the transformation of wholesale energy generation and delivery for the Northern Territory.

This included the development and implementation of the Safe Systems of Work project, focussed on keeping our people safe in high-risk environments, as well as development and training costs associated with the progressive transition to a new workforce operational model involving operator/maintainer technicians at many of our sites. There was also continued focus on developing and enhancing our systems and processes, in order to both increase the security of our systems and infrastructure, including from cyber threats, as well as improve the efficiency of the business and drive down costs in the future.

The transformation of our business has also required significant capital expenditure to construct new generation assets to replace aging and inefficient plant, to implement cutting edge information technology infrastructure, and to progress the adoption of new battery technology designed to assist with the continued strong adoption of solar power.

Capital expenditure for the 12 months to 30 June 2017 was \$83.6 million, compared with \$58.6 million for the

previous year. The increase is primarily due to major project construction upgrades at Owen Springs (total cost expected to be \$75 million) and Tennant Creek (total cost expected to be \$26 million), the development and implementation of the new Remote Operations Centre, and the development of new Information Technology system security and network infrastructure.

DIVIDEND

The Northern Territory Government is the sole shareholder of Territory Generation. All dividends are paid to the Northern Territory Government.

In consultation with the shareholding Minister, the Territory Generation Board recommends a dividend amount. The recommendation takes into account financial performance, capital structure, capital investment commitments and capacity to pay in accordance with prudent financial management.

In respect of the 12 months to 30 June 2017, Territory Generation will not be paying a dividend (2015/16: \$8.4 million).

POWER PURCHASE AGREEMENTS

Territory Generation has PPAs in place where electricity produced by privately owned companies is purchased by Territory Generation.

Agreements are in place with independent producers at Uterne Solar in Alice Springs and the Landfill Management Services facility at Shoal Bay in Darwin.

EDL, which operates the Pine Creek Power Station, cancelled their PPA with Territory Generation, and as such Territory Generation will not purchase power from EDL in 2017/18.

The PPA with Central Energy, which operates the Brewer Power Station, ceased during the 2016/17 year.

During 2016/17 Territory Generation purchased a total of 182 GWh through these agreements (2015/16: 227 GWh).

THE ADVERSE FINANCIAL IMPACT OF HEIGHTENED RELIABILITY

AS WITH ANY BUSINESS, A SMALL NUMBER OF KEY VARIABLES HAVE THE MOST PROFOUND EFFECT ON FINANCIAL PERFORMANCE.

In Territory Generation's case, this set of key variables is dominated by fuel purchases, which represents more than 50 per cent of operating costs. In addition, the ongoing financial sustainability of the TGen business model is impacted by a number of external factors largely outside of its control. One of these is the demand for ancillary services, which includes inertia, spinning reserve, black start capability, voltage control, capacity, geographical diversity and islanding capability.

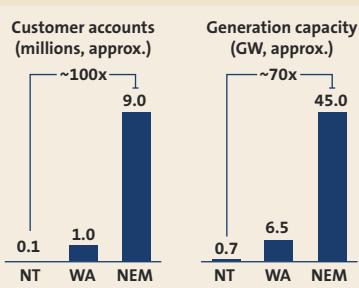
Of these, spinning reserve and inertia are the keys to reliability and stability, as together they provide additional capability that is made available to increase the power output of generators in order to match the instantaneous requirements of the power system.

Currently the cost of ancillary services is bundled with other costs under the interim NT Electricity Market arrangements (INTEM), however TGen has been working with the NT Government to unbundle ancillary services as part of the reform defined by the NT Utilities Strategy.¹ This started with the formation of a working group in late 2016.

Ultimately this unbundling is designed to lower the wholesale price, allowing generators and retailers to trade electricity and ancillary services on commercial terms and conditions while reliability and security of supply is closely managed within defined standards and with cost transparency.

MARKET SIZE

A major factor in any of these considerations is the incredibly small size of the NT (Darwin-Katherine) market, which equates to less than 1% of the National Electricity Market (NEM), with much of the recent national debate centred around moves to re-regulate the market.²



This single issue is highlighted by the fact that Territory Generation is the sole provider of ancillary services in each of the regions in which it operates.

In providing bundled pricing to its customers, Territory Generation incorporates an assumed historical level of demand for a variety of ancillary services such as spinning reserve, voltage control, generation capacity, black start capability and inertia.

Conversely, the INTEM outlines that System Control directs Territory Generation to a spinning reserves requirement as part of ancillary services with a set price of \$5.40/MWh under the System Control Technical Code (SCTC).

TGen is also directed by the System Controller as part of the INTEM to use dedicated machines to maintain system stability by increasing system inertia, which allows the system to better resist changes in frequency. It is important to note that the role of inertia is currently not captured in the System Control Technical Code (SCTC), nor is there any provision for the cost of supplying inertia services.

Although the directive allows for increased reliability of the system, these dedicated machines also have a lower efficiency relative to other machines in the TGen fleet, leading to higher gas consumption and cost than would otherwise be the case.

REACTION TO SA SYSTEM BLACK

In October 2016, a further directive from System Control came into effect in the aftermath of the South Australian system black on 28 September 2016, mandating an increase in the use of these inefficient dedicated machines.

By the end of the financial year 2016/17, TGen completed analysis which indicates the cost of providing these directed ancillary services (incorporating spinning reserve, frequency support and system inertia) is well above the current price of \$5.40/MWh.

ADVERSE FINANCIAL IMPACT

Effectively, this modelling has revealed that the additional requirements as directed by System Control are having an adverse financial impact of approximately \$10.5 million. In real terms, this is higher than the dividend paid to the NT Government in the previous financial year.

It is yet to be determined whether there is an agreed position on the correct level of ancillary services charges, whether the current demand for ancillary services is sustainable, or that a "reliability cost" will be factored into the future NTEM; and how these costs will impact on future returns to the shareholder.

Ultimately, Territory Generation is seeking an outcome that will provide certainty and transparency in costs, price signals and financial outcomes.

The process to reach a resolution on ancillary services with the NT Government through the working group continues, as does the approach towards implementation of the NT Electricity Market.

¹ Utilities Commission

² Independent Review into the Future Security of the National Electricity Market Preliminary Report (December 2016); Electricity Network Transformation Roadmap (April 2017); Powering Queensland Plan (June 2017); (Pending) Review of electricity and gas retail markets in Victoria 2017 (July 2017) – https://www.energovic.gov.au/_data/assets/pdf_file/0014/44411/Discussion-Paper-Review-of-Electricity-and-Gas-Retail-Markets-in-Victoria-30012017.pdf

POWER GENERATION CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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DIRECTORS' REPORT

POWER GENERATION CORPORATION DIRECTORS' REPORT

The directors present their report together with the financial report of Power Generation Corporation (the Corporation) for the year ended 30 June 2017 and the Auditor's report thereon. This report is to be read in conjunction with the financial statements of the Corporation.

DIRECTORS

The following persons were directors of the Corporation during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr David De Silva (Chairperson)

Ms Leeanne Bond

Mr Jon Hubbard

Mr John Tourish – appointed 2 August 2016

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Corporation during the financial year are:

MEETING ATTENDANCE	BOARD		AUDIT & RISK COMMITTEE		PEOPLE & SAFETY COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
D De Silva	8	8	4	4	3	3
L Bond	8	8	4	4	3	3
J Hubbard	8	8	4	4	3	3
J Tourish*	8	7	3	3	3	3

*J Tourish was an apology for 1 Board meeting and was only eligible to attend 3 Audit & Risk Committee meetings.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation are to safely, efficiently and reliably generate electricity to sustainably contribute to the lifestyle and development of the Northern Territory.

REVIEW OF OPERATIONS

The Corporation recorded a Net Loss After Tax of \$0.6 million (2016: Net Profit After Tax \$16.7 million). During the financial year, the Corporation invested \$83.6 million (2016: \$58.6 million) in its capital investment program.

Overall profit declined compared with previous years due to a combination of reduced electricity demand, increasing input costs and additional reliability requirements resulting in a loss for the financial year.

The Corporation's operations are subject to environmental regulations under Commonwealth and Territory legislation. The Board believes that the Corporation has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Corporation.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

DIVIDENDS

The Corporation paid a dividend of \$8.4 million on 24 November 2016 in respect of the previous financial year.

No dividend has been declared by the Directors since the end of the financial year.

SUBSEQUENT EVENTS

There has been no item, transaction or event of a material and unusual nature which has arisen since 30 June 2017 that is likely to significantly affect the operations, the results of those operations or the state of affairs of the Corporation in future financial years.

POWER GENERATION CORPORATION DIRECTORS' REPORT

FUTURE DEVELOPMENTS

The Corporation continues to contribute to the development of the Interim Northern Territory Electricity Market (I-NTEM) arrangements. It is expected that this interim market will ultimately transition to the final form of the Northern Territory Electricity Market.

The NT Government is currently developing a roadmap to achieve a renewable energy target of 50% by 2030. This is likely to have a material impact on the Corporation's future asset management, operational, market participation, wholesale pricing and investment strategies.

The Corporation is currently delivering two major capital projects to replace aged generation assets and improve efficiency and reliability in Alice Springs and Tennant Creek. These projects are:

- *Owen Springs Power Station Expansion*

\$75 million has been approved to install 10 x 4.1 MW gas spark engines, and associated equipment including an additional transformer at the Owen Springs substation.

- *Tennant Creek Power Station Upgrade*

\$26 million has been approved to install 3 x 2 MW gas spark engines and 1 x 1.5 MW diesel engine and associated equipment.

These major projects will enable the Corporation to decommission the Ron Goodin Power Station, and aged diesel engines at the Tennant Creek Power Station, reducing noise and emissions and improving efficiency and reliability.

Apart from the above, there are no developments affecting the operations of the Corporation that, in the opinion of the directors, are likely to significantly impact the Corporation during future financial years.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Northern Territory Government has indemnified the directors of the Corporation from and against all liabilities incurred or arising out of conduct as a director of the Corporation, acting in good faith in compliance with any direction or request made by the shareholding Minister or the portfolio Minister to the Corporation or the Board of the Corporation pursuant to the Deed of Indemnity executed by the Northern Territory Government.

The Corporation has, subject to the prohibition in the *Government Owned Corporations Act*, provided an indemnity to the directors of the Corporation from and against civil liability unless the liability arises out of conduct involving a lack of good faith. Liability for costs and expenses incurred by the directors in defending a proceeding, whether civil or criminal, is covered by the Corporation where judgement is given in favour of the directors or the directors are acquitted.

Insurance premiums

The following insurance policies were purchased to cover the directors and officers of the Corporation. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

- Personal Accident Insurance
- Directors' and Officers' Liability

ROUNDING OFF

Amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of directors.

Dated at Darwin this 29th day of September 2017.



Mr David De Silva

Director and Chairperson

DIRECTORS' DECLARATION

POWER GENERATION CORPORATION DIRECTORS' DECLARATION

In the opinion of the directors of the Corporation:

- (a) The financial statements and notes of the Corporation are in accordance with the *Government Owned Corporations Act*, including:
 - (i) giving a true and fair view of the financial position of the Corporation as at 30 June 2017 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards.
- (b) There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.
- (c) The financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1(b) to the financial statements.

This declaration is made in accordance with a resolution of the directors.

Dated at Darwin this 29th day of September 2017.



Mr David De Silva
Director and Chairperson

INDEPENDENT AUDIT OPINION

POWER GENERATION CORPORATION INDEPENDENT AUDIT OPINION



Auditor-General

Independent Auditor's Report to the Board of Directors

Power Generation Corporation

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Opinion

I have audited the financial report of Power Generation Corporation (the Corporation), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In my opinion the accompanying financial report of Power Generation Corporation, is in accordance with Australian Accounting Standards and the *Government Owned Corporations Act*, including:

- Giving a true and fair view of the Corporation's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- Complying with *International Financial Reporting Standards* as disclosed in Note 1(b).

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of my report. I am independent of the Corporation in accordance with the *Government Owned Corporations Act* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Corporation's annual report for the year ended 30 June 2017, but does not include the financial report and my auditor's report thereon.

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

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

If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

INDEPENDENT AUDIT OPINION

POWER GENERATION CORPORATION INDEPENDENT AUDIT OPINION



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Responsibilities of the Directors for the Financial Report

The Directors of the Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Government Owned Corporations Act* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls as they apply to the Corporation.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

INDEPENDENT AUDIT OPINION

POWER GENERATION CORPORATION INDEPENDENT AUDIT OPINION



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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature of Julie Crisp.

Julie Crisp
Auditor-General for the Northern Territory
Darwin, Northern Territory
29 September 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

POWER GENERATION CORPORATION
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2017 \$'000	2016 \$'000
Revenue	3	294,823	308,687
Cost of energy		259,884	258,970
Gross profit		34,939	49,717
Other income	3	5,299	4,035
Administrative expenses		29,175	20,891
Other expenses		3,185	1,051
Finance costs		8,422	7,590
Profit / (loss) before income tax	4	(544)	24,220
Income tax expense	5	10	7,507
Profit / (loss) for the year		(554)	16,713
Other comprehensive income			
Other comprehensive income (net of tax)		–	–
Total other comprehensive income for the year		–	–
Total comprehensive income / (loss) for the year		(554)	16,713

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

POWER GENERATION CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	NOTE	2017 \$'000	2016 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	23,740	78,866
Trade and other receivables	7	36,349	33,971
Inventories	8	23,721	21,809
Other current assets	9	661	487
Total current assets		84,471	135,133
Non-current assets			
Property, plant and equipment	10	423,449	364,599
Intangible assets	10	1,430	2,147
Deferred tax asset	11	20,660	19,842
Total non-current assets		445,539	386,588
Total assets		530,010	521,721
LIABILITIES			
Current liabilities			
Trade and other payables	12	36,047	33,738
Deferred income	18	1,667	—
Taxes payable	13	1,660	23,775
Employee provisions	14	8,759	8,002
Borrowings	17	47,000	—
Total current liabilities		95,133	65,515
Non-current liabilities			
Employee provisions	14	1,747	1,435
Other provisions	15	6,663	5,000
Deferred tax liability	16	637	1,470
Deferred income	18	48,333	50,000
Borrowings	17	153,000	180,000
Total non-current liabilities		210,380	237,905
Total liabilities		305,513	303,420
Net assets		224,497	218,301
EQUITY			
Contributed equity	20	198,593	183,593
Reserves	21	107	—
Retained earnings	22	25,797	34,708
Total equity		224,497	218,301

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

POWER GENERATION CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	CONTRIBUTED EQUITY \$'ooo	REVALUATION RESERVES \$'ooo	RETAINED EARNINGS \$'ooo	TOTAL EQUITY \$'ooo
Balance at 1 July 2016	20	183,593	–	34,708	218,301
(Loss) for the year		–	–	(554)	(554)
Other comprehensive income (net of tax)		–	–	–	–
Total comprehensive income for the year		–	–	(554)	(554)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity		15,000	–	–	15,000
Asset revaluation	21	–	107	–	107
Dividend paid or provided		–	–	(8,357)	(8,357)
Balance at 30 June 2017		198,593	107	25,797	224,497
Balance at 1 July 2015		183,593	–	35,989	219,582
Profit for the year		–	–	16,713	16,713
Other comprehensive income (net of tax)		–	–	–	–
Total comprehensive income for the year		–	–	16,713	16,713
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity		–	–	–	–
Dividend paid or provided		–	–	(17,994)	(17,994)
Balance at 30 June 2016		183,593	–	34,708	218,301

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

POWER GENERATION CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers		299,495	352,531
Grant received		–	50,000
Interest received		760	713
Payments to suppliers and employees		(268,899)	(255,641)
Interest paid		(8,422)	(7,590)
Income taxes paid		(23,776)	(17,146)
Net cash (used in) / from operating activities	23	(842)	122,867
 Cash flows from investing activities			
Payments for property, plant and equipment		(80,927)	(46,962)
Payments for intangibles		–	(1,814)
Net cash used in investing activities		(80,927)	(48,776)
 Cash flows from financing activities			
Dividends paid		(8,357)	(17,994)
Equity received		15,000	–
Borrowings received		20,000	–
Net cash from / (used in) financing activities		26,643	(17,994)
 Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		78,866	22,769
Cash and cash equivalents at the end of the period	6	23,740	78,866

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

CORPORATE INFORMATION

Power Generation Corporation (the Corporation) trading as Territory Generation was established on 29 May 2014 under the *Power Generation Corporation Act 2014* (PGC Act).

The Corporation is declared to be a Government Owned Corporation for the purposes of the Government Owned Corporations Act (GOC Act).

The Board of Directors is responsible to the shareholding Minister for the financial performance of the Corporation. The financial report was authorised for issue by the directors on 30 September 2017.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) New, revised or amending accounting standards and interpretations adopted

The Corporation has adopted all of the new, revised or amending accounting standards and interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The Corporation is uncertain of the full impact of these standards at the time of their ultimate application.

AASB 16 Leases

Effective for annual reporting periods beginning on or after 1 January 2019. Expected to be initially applied in the financial year ending 30 June 2020.

This standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, as asset (the right to use the lease item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low value leases.

The standard will effect primarily the accounting for the Corporation's operating leases. As at the reporting date the Corporation has non-cancellable operating lease commitments of \$4.9 million, see Note 25. However the Corporation has not yet determined to what extent these commitments will result in the recognition of assets and liabilities for future payments and how this will affect the Corporation's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

AASB 9 Financial Instruments (December 2014)

Effective for annual reporting periods beginning on or after 1 January 2018. Expected to be initially applied in the financial year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers and

AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15

Effective for annual reporting periods beginning on or after 1 January 2018. Expected to be initially applied in the financial year ending 30 June 2019.

(b) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the GOC Act, as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements comprise Power Generation Corporation's financial statements as an individual entity. For the purpose of preparing financial statements, the Corporation is a for-profit entity.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Historical Cost Convention

The financial statements have been prepared under the historical cost convention. Cost is based on the fair values of the consideration given in exchange for the assets. Certain assets are carried at their fair value, where the fair value is lower than the historical cost.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(c) Foreign currency translation

The financial statements are presented in Australian dollars, which is the Corporation's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at financial year-end exchange rates are recognised in profit or loss.

(d) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Corporation and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

Electricity sales

Revenue is recognised upon billing, derived from information provided by the Market Operator to all market participants.

Unbilled revenue

Unbilled revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be measured reliably. Therefore, the Corporation has recognised the estimate of the amount of electricity consumed but yet to be billed. Refer Note 2 for further details.

Gas sales

Under a Power Purchase Agreement the Corporation has a contractual obligation to sell gas to an electricity supplier.

Interest

Interest revenue is accrued on a time basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Government grants

Government grants are recognised upon receipt. Grants related to purchase or construction of assets are treated as deferred income and allocated to the income statement over the useful lives of the related assets while grants related to expenses are treated as other income in the income statement.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

(e) Income tax equivalents

The Corporation is required to make income tax equivalent payments to the Northern Territory Government based on taxable income. It is not liable to pay Commonwealth tax that would be payable were it not a Government Owned Corporation.

Income tax equivalent payments are made pursuant to section 33 of the GOC Act and are based on rulings under the National Tax Equivalent Regime (NTER). The NTER gives rise to obligations which reflect in all material aspects those obligations for taxation which would be imposed by the Income Tax Assessment Act 1936 and 1997.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Current tax

The income tax expense for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

(f) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within 12 months after the reporting period; or
- The asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(g) Cash and cash equivalents

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

(h) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are normally settled within 30 days and are carried at amounts due.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value using the weighted average cost method, and are impaired accordingly to take into account obsolescence.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

(j) Property, plant and equipment

It is the Corporation's policy to record all fixed asset items at fair value. All assets recognised by the Corporation on 1 July 2014 from the structural separation of Power and Water Corporation (PWC) were valued at fair value on an income basis for initial recognition. The condition of the assets was assessed and estimates of the remaining useful lives of all assets were calculated. The acquisition price was recorded as the opening cost of these items at this time.

Initially the asset item is recorded at the fair value of the consideration to acquire the item. In most cases, this will be the purchase price, or the cost of the asset. On a periodic basis a fair value assessment will be performed under the value in use approach.

The Corporation depreciates assets over their useful lives utilising both the time basis and output/service basis of depreciation. The determination of the appropriate method is based on the expected pattern of consumption of the future economic benefits embodied in the asset.

Assets depreciated using the time basis are:

ASSET CLASS	EFFECTIVE LIFE
Buildings	10 to 40 years
Plant and equipment	2 to 30 years
Furniture and fittings	5 to 10 years

Assets depreciated using the output/service basis are:

ASSET CLASS	EFFECTIVE LIFE
Prime Movers	22,000 to 50,000 equivalent operating hours

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

The Corporation capitalises assets when the asset life is greater than one year, and the cost is greater than \$10,000. For expenditure on existing assets, the cost is capitalised if:

- the service capacity is significantly increased;
- the useful life has increased significantly and permanently from original expectations;
- there has been a significant increase in efficiency or performance;
- a component on the fixed asset register has been replaced; or
- it represents an item of major periodic maintenance where the cyclical inspections are greater than one year and the new asset will be recognised as a component of the parent asset.

An item of property, plant and equipment is derecognised upon disposal or where there is no future economic benefit to the Corporation. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus relating to the item disposed of is transferred directly to retained earnings.

(k) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Corporation will obtain ownership at the end of the lease term.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The amortisation method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software

Significant costs associated with software are amortised on a straight-line basis over their estimated useful lives. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Software has a useful life of 2 – 10 years.

(m) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

(p) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on bank overdrafts
- interest on short-term and long-term borrowings
- interest on finance leases
- unwinding of discounts on provisions.

(q) Provisions

Provisions are recognised when the Corporation has a present (legal or constructive) obligation as a result of a past event, it is probable the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Decommissioning

A decommissioning provision is raised when there is the existence of a present obligation that can be reliably measured. Reliable measurement is taken at the point a reasonable expectation of the remaining useful life of the asset can be determined.

(r) Employee benefits

Short term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(s) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on their highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(t) Issued capital

The GOC Act requires the Corporation to have share capital to be held by one shareholder only, being the shareholding Minister, who holds the share on behalf of the Northern Territory Government. The Corporation's constitution specifies the share capital to be one share. No value is assigned to this share.

(u) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

(v) Dividends

Dividends are recognised when declared and at the point in time they become payable to the Government. Under the Northern Territory Government's dividend policy (Policy Brief – Liabilities Issue 2: Provision for Dividends) the Corporation is required to declare a dividend calculated at 50% of the 30 June post tax surplus.

(w) Cost of energy

Cost of energy is recognised as those costs directly attributable to the energy sold and includes the costs of electricity generation, materials and associated network connection expenses. Electricity generation costs are those direct costs including generator operation and maintenance, direct facility costs and the contracted purchase price of electricity from third party suppliers.

(x) Rounding of amounts

The Corporation is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to "rounding-off". Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Unbilled Revenue

The Corporation recognises an estimate of the amount of electricity consumed but yet to be billed. The estimate is derived from information provided by the Market Operator to all market participants. Refer to Note 7 for more information.

Provision for obsolescence of inventories

The provision for obsolescence of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent consumption experience, the ageing of inventories and other factors that affect inventory obsolescence. Refer to Note 8 for more information.

Estimation of useful lives of assets

The Corporation determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down. Refer to Note 10 for more information.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the entity considers it is probable that future taxable amounts will be available to utilise those temporary differences. Refer to Note 11 for more information.

Employee benefits provision

As discussed in Note 1(r), the liability for employee benefits expected to be settled more than 12 months from the reporting date is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account. Refer to Note 14 for more information.

Decommissioning provision

The Corporation has recognised a decommissioning provision based on an evaluation and assessment provided by an external expert. This assessment may be subject to future unexpected events and as such may change in response to other factors. Refer to Note 15 for more information.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
3. REVENUE		
Revenue		
<i>Sales revenue</i>		
Electricity sales	294,612	306,605
Gas sales	211	2,082
	<u>294,823</u>	<u>308,687</u>
Other income		
Other income	222	3,322
Warranty claim	4,317	—
Interest income	760	713
	<u>5,299</u>	<u>4,035</u>

The Corporation was successful in its warranty claim in respect of an engine damaged in the prior year.

4. EXPENSES

Profit / (loss) before income tax includes the following specific expenses:

(a) Administrative expenses

Employee benefits expense	13,047	10,386
Depreciation and amortisation	630	913
Other administrative costs	15,498	9,592
Total administrative expenses	<u>29,175</u>	<u>20,891</u>

(b) Depreciation and amortisation

<i>Included in cost of energy:</i>		
Property, plant and equipment	24,671	25,593
Intangible assets	263	381
Total depreciation and amortisation	<u>24,934</u>	<u>25,974</u>

Not included in cost of energy:

Property, plant and equipment	176	459
Intangible assets	454	454
Total depreciation and amortisation	<u>630</u>	<u>913</u>

(c) Impairment of assets

Buildings	—	29
Property, plant and equipment	—	505
Total impairment of assets	<u>—</u>	<u>534</u>

(d) Finance costs

Interest and finance charges	8,422	7,590
Total finance costs	<u>8,422</u>	<u>7,590</u>

(e) Employee benefits expense

Employee benefits expense	33,899	26,948
Total employee benefits expense	<u>33,899</u>	<u>26,948</u>

Includes all employee-related costs, including those costs that form part of cost of energy and part of administrative expenses.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'ooo	2016 \$'ooo
5. INCOME TAX EQUIVALENT EXPENSE		
(a) Income tax expense		
Current tax	1,661	25,877
Adjustment recognised for prior periods	–	(2,103)
Deferred income tax		
Movement in deferred tax assets	(818)	(15,243)
Movement in deferred tax liabilities	(833)	(1,024)
Total deferred tax (benefit)	<u>(1,651)</u>	<u>(16,267)</u>
Income tax expense	10	7,507
(b) Reconciliation of income tax expense to prima facie tax payable		
Net Profit / (loss) Before Tax	(544)	24,220
Tax at the statutory income tax rate of 30%	(163)	7,266
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income	173	2,344
Adjustment recognised for prior periods	–	(2,103)
Current tax equivalent expense	10	7,507
6. CASH AND CASH EQUIVALENTS		
Cash at bank	23,740	78,866
Cash and cash equivalents	<u>23,740</u>	<u>78,866</u>

A \$10 million overdraft facility has been established to manage short term cash requirements.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
7. TRADE AND OTHER RECEIVABLES		
Trade receivables	10,142	8,577
Less: impairment of receivables	–	–
	<u>10,142</u>	<u>8,577</u>
<i>Other receivables</i>		
Unbilled generation	17,932	23,613
Interest receivable	44	58
Other receivables	<u>8,231</u>	<u>1,723</u>
Total current receivables	36,349	33,971
Impairment of receivables		
No trade receivables are past due or are considered to require impairment.		
8. INVENTORIES		
Stores and spares	23,236	21,235
Less: Provision for obsolescence	(2,123)	(2,053)
	<u>21,113</u>	<u>19,182</u>
Fuel stocks	2,608	2,627
Total Inventories	23,721	21,809
Movement in the provision for obsolescence:		
Opening provision for obsolescence	2,053	1,907
Additional provisions recognised during the period	70	146
Closing provision for obsolescence	2,123	2,053
9. OTHER CURRENT ASSETS		
Prepayments	661	487
Total other current assets	661	487
Prepaid costs greater than \$10,000 are recorded in the balance sheet and released over the relevant period.		

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
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10. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES

(a) Summary

Property, plant and equipment

Land, at cost	1,219	1,219
Land, at valuation	107	–
Land	1,326	1,219
Buildings	46,967	46,470
Less: Accumulated depreciation	(7,023)	(4,660)
	39,944	41,810
Plant and equipment	327,722	310,065
Less: Accumulated depreciation	(65,825)	(44,228)
	261,897	265,837
Assets under construction	120,282	55,733
Total property, plant and equipment	423,449	364,599

Intangibles

Software	3,363	3,363
Less: Accumulated amortisation	(1,933)	(1,216)
Total intangibles	1,430	2,147
Total property, plant, equipment & intangibles	424,879	366,746

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	LAND AND BUILDINGS \$'000	PLANT AND EQUIPMENT \$'000	INTANGIBLES \$'000	ASSETS UNDER CONSTRUCTION \$'000	TOTAL \$'000
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(b) Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Cost					
Opening balance at 1 July 2015	46,147	304,481	1,549	11,415	363,592
Additions	1,915	4,014	–	52,668	58,597
Capitalisation	–	6,536	1,814	(8,350)	–
Impairment of assets	(34)	(630)	–	–	(664)
Disposals	(373)	(4,966)	–	–	(5,339)
Closing balance at 30 June 2016	47,655	309,435	3,363	55,733	416,186

Opening balance at 1 July 2016	47,655	309,435	3,363	55,733	416,186
Additions	–	1,663	–	81,972	83,635
Capitalisation	531	16,892	–	(17,423)	–
Revaluation	107	–	–	–	107
Impairment of assets	–	–	–	–	–
Disposals	–	(268)	–	–	(268)
Closing balance at 30 June 2017	48,293	327,722	3,363	120,282	499,660

Accumulated depreciation and impairment					
Opening balance at 1 July 2015	(2,301)	(21,349)	(381)	–	(24,031)
Depreciation expense	(2,330)	(23,722)	(835)	–	(26,887)
Impairment of assets	5	125	–	–	130
Disposals	–	1,348	–	–	1,348
Closing balance at 30 June 2016	(4,626)	(43,598)	(1,216)	–	(49,440)

Opening balance at 1 July 2016	(4,626)	(43,598)	(1,216)	–	(49,440)
Depreciation expense	(2,397)	(22,450)	(717)	–	(25,564)
Impairment of assets	–	–	–	–	–
Disposals	–	223	–	–	223
Closing balance at 30 June 2017	(7,023)	(65,825)	(1,933)	–	(74,781)

Carrying Amounts					
At 30 June 2016	43,029	265,837	2,147	55,733	366,746
At 30 June 2017	41,270	261,897	1,430	120,282	424,879

The recoverable amount of the Corporation's property, plant equipment has been determined by a value-in-use calculation using a discounted cash flow model, based on the Corporation's Statement of Corporate Intent.

Based on the above, the recoverable amount exceeds the carrying amount.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
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11. DEFERRED TAX ASSET

Deferred tax asset comprises temporary differences attributable to:

Amounts recognised in profit and loss:

Employee provisions	3,024	2,726
Other provisions	1,999	1,500
Obsolete stock provision	637	616
Deferred grant income	15,000	15,000
Deferred tax asset	20,660	19,842

Movements:

Opening deferred tax asset	19,842	4,599
Credited/(charged) to income tax payable	–	–
Credited/(charged) to profit or loss	818	15,243
Closing deferred tax asset	20,660	19,842
Deferred tax liability – refer Note 16	637	1,470
Net deferred tax assets	20,023	18,372

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'ooo	2016 \$'ooo
12. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	3,588	3,781
Other creditors and accruals	19,574	16,027
Energy accruals	12,885	13,930
Total payables	36,047	33,738
<hr/>		
The policy of the Corporation is to settle trade payables within 30 days. The Corporation has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.		
13. INCOME TAXES PAYABLE		
Provision for income tax	1,660	23,775
Taxes payable	1,660	23,775
<hr/>		
14. EMPLOYEE PROVISIONS		
Current		
Employee benefits	8,759	8,002
	<hr/>	<hr/>
	8,759	8,002
Non-current		
Employee benefits	1,747	1,435
	<hr/>	<hr/>
	1,747	1,435
<hr/>		
Employee benefits include amounts for recreation leave, long service leave and related on costs.		
The disclosure of recreation leave is entirely shown as a current liability commencing in the 2017 year. It is expected that recreation leave earned should be settled within 12 months.		
<hr/>		
15. OTHER PROVISIONS		
Decommissioning		
Opening decommissioning provision	5,000	5,000
Provisions made during the year	1,663	–
Closing decommissioning provision	<hr/>	<hr/>
	6,663	5,000
<hr/>		
The decommissioning provision has been raised due to the existence of a present obligation for the rectification of the operating site at Ron Goodin Power Station which is coming to the end of its useful life.		

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017 \$'ooo	2016 \$'ooo
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16. DEFERRED TAX LIABILITY

Deferred tax liability comprises temporary differences attributable to:

Amounts recognised in profit or loss:

Property, plant and equipment	623	1,453
Interest	14	17
Deferred tax liability	637	1,470

Movements:

Opening deferred tax liability	1,470	2,494
(Credited)/charged to profit or loss	(833)	(1,024)
Closing deferred tax liability	637	1,470

17. BORROWINGS

Current

NT Government loans – unsecured	47,000	–
	47,000	–

Non Current

NT Government loans – unsecured	153,000	180,000
	153,000	180,000

Refer to Note 1 (o) Borrowings, Note 24 (f) Interest rate risk and Note 24 (h) Liquidity risk

18. DEFERRED INCOME

Current	1,667	–
Non-current	48,333	50,000
	50,000	50,000

The Corporation received a \$50 million capital grant toward the construction of Alice Springs and Tennant Creek power stations. Refer to Note 1 (d).

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$	\$
19. ISSUED CAPITAL		
Share capital		
1 Share	—	—
Total share capital	—	—
Refer to Note 1 (t) Issued capital		
20. CONTRIBUTED EQUITY		
Contributed equity at beginning of the year	183,593	183,593
Contributed equity during the year	15,000	—
Contributed equity at end of the year	<u>198,593</u>	<u>183,593</u>
The original contributed equity was the result of the capital structure of the Corporation approved by the shareholding Minister with regard to the fair value of its acquired asset base and an appropriate debt level. This was increased during the year to recontribute the tax payable on the capital grant received.		
21. RESERVES		
Balance at beginning of the year	—	—
Movement for the year	107	—
Balance at end of the year	<u>107</u>	<u>—</u>
A parcel of land in Alice Springs that was allocated to the Corporation upon separation from Power Water Corporation was revalued from its originally allocated value of \$1 to \$107,000 based on its value in use from its long term lease arrangement.		
22. RETAINED EARNINGS		
Retained earnings at beginning of the year	34,708	35,989
Total comprehensive income for the year	(554)	16,713
Dividends paid	(8,357)	(17,994)
Retained earnings at end of the year	<u>25,797</u>	<u>34,708</u>

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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	2017 \$'ooo	2016 \$'ooo
23. RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES		
Profit / (loss) after income tax expense for the year	(554)	16,713
<i>Adjustments for:</i>		
Depreciation and amortisation	25,564	26,887
Net loss on disposal of non-current assets	45	3,619
Impairment of assets	–	534
<i>Changes in assets and liabilities:</i>		
Trade, other receivables and other current assets	(2,442)	40,709
Inventories	(1,913)	(894)
Trade and other payables	2,202	(5,203)
Energy accruals	(1,045)	(295)
Provisions	1,067	436
Deferred income	–	50,000
Taxation liabilities	(23,766)	(9,639)
Net cash flows (used in) / from operating activities	(842)	122,867

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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24. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The Corporation's activities expose it to a variety of financial risks including market risk, foreign currency risk, price risk, interest rate risk, credit risk and liquidity risk.

Risk management is carried out by the senior executives under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the Corporation and appropriate procedures, controls and risk limits.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in Note 1 to the financial statements.

(b) Market risk

Recent market reforms have exposed the Corporation to competition and potential loss of market share.

The Corporation is focused on developing performance and cost efficiencies across its operations in order to mitigate the business impact of increasing generation competition.

(c) Efficiency risk

The Corporation is exposed to the risk of running its plant inefficiently to manage electricity network system integrity issues. This includes risks such as inefficient or uneconomic system dispatch, excessive spinning reserve, and running inefficient plant to provide inertia to the system. These ancillary services all have the impact of increasing the operational costs of the Corporation, making it imperative that the future market arrangements provide a corresponding ability to recover costs through market payments for ancillary services.

(d) Foreign currency risk

The Corporation undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The Corporation manages foreign currency exposure on a case by case basis, with future foreign currency commitments also considering potential exchange rate volatility. The Corporation has the ability to enter forward exchange rate contracts, or alternatively purchasing foreign currency at current rates to meet future commitments.

The carrying amount of the Corporation's foreign currency denominated monetary liabilities at the reporting date was \$2.2 million.

(e) Price risk

The Corporation manages price risk by aligning the terms of the wholesale electricity sales and fuel purchase agreements. As the individual agreements are considered to be commercial-in-confidence, a sensitivity on these risks is not able to be presented.

**POWER GENERATION CORPORATION
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(f) Interest rate risk

The Corporation's exposure to the risk of changes in market interest rates relates to the long-term debt obligations to the Northern Territory Government. The loans are interest only based on fixed interest rates and the Corporation is exposed to interest rate risk when there are interest rate resets only upon expiry and refinancing of the fixed rate terms.

The following table shows the Corporation's debt and interest obligations to the Northern Territory Government:

	2017		2016	
	FIXED RATE LOANS \$'ooo	AVERAGE INTEREST RATE %	FIXED RATE LOANS \$'ooo	AVERAGE INTEREST RATE \$
	Remaining loan term			
0 – 1 year	47,000	5.16	–	–
1 to 2 years	–	–	47,000	5.16
2 to 5 years	153,000	4.48	133,000	4.56
Over 5 years	–	–	–	–
Average	200,000	4.71	180,000	4.80

Cash flow sensitivity analysis

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and pre-tax profit and loss by the amount shown below. This analysis assumes that all other variables remain constant.

	PROFIT OR LOSS		EQUITY NET OF TAX	
	100 BP INCREASE	100 BP DECREASE	100 BP INCREASE	100 BP DECREASE
Effect in \$'ooo				
30 Jun 2017	(2,000)	2,000	(1,400)	1,400
30 Jun 2016	(1,800)	1,800	(1,260)	1,260

(g) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. The maximum exposure to credit risk at the reporting date to recognise financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Corporation does not hold any collateral.

The Corporation has a credit risk exposure with Power Retail Corporation trading as Jacana Energy, which as at 30 June 2017 owed the Corporation \$9.2 million (97% of trade receivables). This balance was within the terms of the wholesale electricity sales agreement and no impairment was made as at 30 June 2017. There are no guarantees against this receivable but management closely monitors the receivable balance on a regular basis and is in regular contact with this customer to mitigate risk. This customer is a Government Owned Corporation.

New and existing customers are evaluated for credit risk, with the Corporation actively monitoring the appropriateness of credit limits, and clear accountability for customer relationships established. Ageing analysis is regularly undertaken for all customers to understand and mitigate credit risk.

(h) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Corporation's objective is to maintain cash to meet its liquidity requirements for 30 day periods. This objective was met for the period.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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Subject to borrowings being refinanced on maturity, the Corporation's existing cash resources and trade receivables significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

Liability Maturity Analysis

NON-DERIVATIVES	1 YEAR OR LESS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
2016-17	\$'ooo	\$'ooo	\$'ooo	\$'ooo
<i>Non-interest bearing</i>				
Trade and other payables	36,047	—	—	—
Taxes payable	1,660	—	—	—
<i>Interest bearing – fixed rate</i>				
Loans from				
Northern Territory Treasury Corporation	47,000	—	153,000	—
Total	84,707	—	153,000	—

NON-DERIVATIVES	1 YEAR OR LESS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
2015-16	\$'ooo	\$'ooo	\$'ooo	\$'ooo
<i>Non-interest bearing</i>				
Trade and other payables	33,738	—	—	—
Taxes payable	23,775	—	—	—
<i>Interest bearing – fixed rate</i>				
Loans from				
Northern Territory Treasury Corporation	—	47,000	133,000	—
Total	57,513	47,000	133,000	—

(i) Capital risk management

The Corporation's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefits for other stakeholders while maintaining an efficient capital structure in line with shareholding Minister expectations.

The capital structure of the Corporation consists of debt, which includes borrowings disclosed in Note 17, cash and cash equivalents and equity attributable to the equity holder of the Corporation, comprising of contributed capital and retained earnings as disclosed in Notes 20 and 22 respectively.

In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, increase borrowings, reduce debt from operating cash flows or sell assets to reduce debt.

Operating cash flows are used to maintain and expand the Corporation's assets, as well as to meet routine outflows of tax, dividends and servicing of debt.

The Corporation's policy is to borrow centrally using facilities provided by Northern Territory Treasury Corporation to meet anticipated funding requirements.

The Corporation is not subject to any externally imposed capital requirements.

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
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25.

COMMITMENTS

Committed at the reporting date but not recognised as liabilities, payable:

<i>Capital commitments – payable:</i>		
Within one year	25,573	71,444
One to five years	8,928	25,233
More than five years	–	–
	34,501	96,677

Major projects include:

- Additional 41 MW of gas fired spark ignition reciprocating power at Owen Springs Power Station to replace the capacity to be withdrawn from Ron Goodin Power Station.
- Capacity upgrade works at Tennant Creek Power Station.

<i>Operating lease commitments – payable:</i>		
Within one year	1,690	1,425
One to five years	3,176	4,230
More than five years	34	19
	4,900	5,674

26.

AUDITOR'S REMUNERATION

Audit services:

Auditors of the Corporation – NT Auditor-General	82	99
	82	99

POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

27. DIRECTOR AND KEY MANAGEMENT PERSONNEL DISCLOSURES

Remuneration of non-executive directors

Remuneration of directors is determined by the shareholding Minister under section 24 of the GOC Act.

The following table provides the details of all non-executive directors of the Corporation and the nature and amount of the elements of their remuneration:

		FEES \$	SUPERANNUATION \$	TOTAL \$
Non-executive directors				
Mr David De Silva (Chairperson)	2017	94,277	8,956	103,233
	2016	97,318	9,245	106,563
Ms Leeanne Bond	2017	76,896	7,305	84,201
	2016	79,269	7,530	86,799
Mr Jon Hubbard	2017	59,513	5,654	65,167
	2016	61,218	5,816	67,034
Mr John Tourish*	2017	52,437	5,904	58,341
	2016	—	—	—
Total non-executive directors	2017	283,123	27,819	310,942
	2016	237,805	22,591	260,396

*Mr John Tourish was appointed to the Board on the 2nd of August 2016.

No termination benefits were paid to non-executive directors during the year.

Remuneration of key management personnel

Compensation levels are competitively set to attract and retain appropriately qualified and experienced senior executives.

The following table shows the aggregate compensation made to key management personnel of the Corporation:

	2017 \$	2016 \$
(i) Short-term employee benefits	2,342,464	1,848,528
(ii) Post-employment benefits	149,286	139,332
(iii) Long-term benefits	91,174	135,591
Total compensation of key management personnel	2,582,924	2,123,451

Executive officers are those officers who are involved in the strategic direction, general management or control of the business at corporation or business division level.

During the financial year the Corporation finalised the Executive Leadership Team (ELT) with the recruitment of one additional position. In addition, a termination benefit was paid to one key management personnel.



POWER GENERATION CORPORATION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

- (i) Short-term employee benefits refer to salary and wages paid during the financial year and the current annual leave and long service leave accrued at year end.
- (ii) Post-employment benefits refer to superannuation contributions made during the financial year.
- (iii) Long-term benefits refer to non-current annual leave and long service leave accrued at year end.

Other transactions with key management personnel

Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Corporation since the commencement of the Corporation and there were no material contracts involving their interests existing at year end.

28. CONTINGENT ASSETS AND LIABILITIES

(a) Contingent liabilities

The Corporation is not aware of any events that give rise to contingent liabilities of the organisation.

(b) Contingent assets

The Corporation is not aware of any events that give rise to contingent assets of the organisation.

29. SUBSEQUENT EVENTS

Apart from the dividend noted in the Directors' report, the Corporation is not aware of any subsequent events or developments that give rise to any disclosures that are not already captured.

**POWER GENERATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

30. RELATED PARTY INFORMATION

The parent entity of the Corporation is the Northern Territory Government, which at 30 June 2017 owned 100% (2016 :100%) of the issued capital of Power Generation Corporation. This single share is held by the shareholding Minister on behalf of the Northern Territory.

The Corporation has related party transactions with its parent entity (includes other agencies and departments of the Northern Territory Government). All financial transactions between the Corporation and related parties are on arm's length normal market terms.

Transactions

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. The Corporation is the predominant supplier of wholesale electricity in the Northern Territory."

RELATED PARTY	SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES	AMOUNTS OWED TO RELATED PARTIES
	\$'000	\$'000	\$'000	\$'000
The parent entity including all entities that are associated with the parent entity	2016 2017	301,803 296,631	200,820 192,878	30,449 25,915
				194,196 210,390

As at 30 June 2017 related party transactions of the Corporation included:

- services provided by PWC under the Transition Service Agreements;
- supply of gas from PWC;
- services provided by the Department of Corporate and Information Services under a Service Level Agreement;
- borrowings from the Northern Territory Treasury Corporation;
- provision of wholesale electricity to Jacana Energy; and
- provision of wholesale electricity to PWC.

GLOSSARY

AMS	Asset Management System	MWh	Megawatt-hour
ARC	Audit & Risk Committee	NGER	National Greenhouse and Energy Reporting
BAU	Business As Usual	NPAT	Net Profit After Tax
BESS	Battery Energy Storage System	NT	Northern Territory
CO₂	Carbon dioxide	NTEPA	Environment Protection Authority
CIPS	Channel Island Power Station	NTEM	Northern Territory Electricity Market
CPI	Consumer Price Index	OMT	Operator Maintainer Technician
EA	Engineers Australia	OSPS	Owen Springs Power Station
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	PGC Act	Power Generation Corporation Act 2014
ELT	Executive Leadership Team	PJ	Petajoules
EWL	Emerging Women Leaders	PPA	Power Purchase Agreement
FTE	Full Time Equivalent	PWC	Power and Water Corporation
GCC	Generation Consultative Committee	R&M	Repairs and Maintenance
GOC	Government Owned Corporation	ROC	Remote Operations Centre
GWh	Gigawatt-hour	RGPS	Ron Goodin Power Station
HR	Human Resources	SAO	Safe Act Observation
ICAM	Incident Cause Analysis Method	SCI	Statement of Corporate Intent
INTEM	Interim Northern Territory Electricity Market	SCTC	System Control Technical Code
IR	Industrial Relations	SSoW	Safe Systems of Work
IT	Information Technology	TCPS	Tennant Creek Power Station
KCPS	Kings Canyon Power Station	TGen	Territory Generation
KPI	Key Performance Indicator	TMS	Training Management System
KPS	Katherine Power Station	TRIFR	Total Recordable Injury Frequency Rate
LED	Light-emitting diode	TSA	Transitional Services Agreement
LMS	LMS Landfill Management Services Pty Ltd (Shoal Bay)	WAN	Wide Area Network
LNG	Liquefied Natural Gas	WEM	Wholesale Electricity Market
LTI	Lost Time Injury	WLF	Women's Leaders Forum
M	Million	WHS	Workplace Health and Safety
MW	Megawatt	WPS	Weddell Power Station
		YPS	Yulara Power Station



Outback
Crane Hire

DANGER

DANGER

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