



**POWER GENERATION CORPORATION**

**(Trading as Territory Generation)**

**2015 – 16 Statement of Corporate Intent**

**April 2015**

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## Glossary

Acronym	Meaning
CCTV	Closed Circuit Television
CIPS	Channel Island Power Station
CPI	Consumer Price Index
CSF	Critical Success Factor
EAF	Equivalent Availability Factor
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EFOF	Equivalent Forced Outage Factor
FTE	Full Time Equivalent
GOC	Government Owned Corporation
GRACE	Governance, Risk, Audit, Compliance and Event Management System
GSA	Gas Supply Agreement
GWh	Gigawatt-hour
HR	Human Resources
IAMP	Integrated Asset Management Plan
IR	Industrial Relations
IT	Information Technology
JSEA	Job Safety and Environmental Analysis
KCPS	Kings Canyon Power Station
KPI	Key Performance Indicator
KPS	Katherine Power Station
LNG	Liquefied Natural Gas
LTI	Lost Time Injury
M	Million
MW	Megawatt
MWh	Megawatt-hour
NPAT	Net Profit After Tax
NT	Northern Territory
NTG	Northern Territory Government
OEM	Original Equipment Manufacturer
OSPS	Owen Springs Power Station
PGC Act	Power Generation Corporation Act 2014
PPA	Power Purchase Agreement
PWC	Power and Water Corporation
R&M	Repairs and Maintenance
RGPS	Ron Goodin Power Station
RoA	Return on Assets
RoE	Return on Equity
SAO	Safety Act Observation
SCADA	Supervisory Control And Data Acquisition
SCI	Statement of Corporate Intent
TCPS	Tennant Creek Power Station
TSA	Transitional Services Agreement
WEM	Wholesale Electricity Market
WHS	Workplace Health and Safety
WPS	Weddell Power Station
YPS	Yulara Power Station

# 1 Executive Summary

Territory Generation is a new organisation that commenced operations on 1 July 2014 out of the restructure of the electricity industry in the NT. Territory Generation owns 582MW of generation assets and it has agreements to purchase a further 37MW of capacity from a number of smaller, independent power producers.

This document represents Territory Generation's first SCI in its own right and outlines the future direction of the business, key objectives and the strategies that are planned to be implemented to achieve them.

The Corporation's vision is:

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

These words have been carefully chosen and they mean:

- Safety will be universally recognised as the Corporation's highest priority.
- The business will be known for being reliable and keeping the lights on.
- The business will be a commercial organisation that is highly efficient and financially sustainable.
- The expectations of customers will be exceeded.
- The business will be competitive with other players in the market.
- The business will be an employer of choice.

Achievement of the vision will require the business to take a new strategic path. Territory Generation is facing significant changes in the external business landscape, with the impending development of a new wholesale electricity market and the imminent threat of competition in the Darwin/Katherine market. These changes present significant challenges, as the business is not currently well positioned to compete with potential new entrants who are likely to have modern, highly efficient plant and operational business models that are flexible, streamlined and efficient. In contrast, Territory Generation has some relatively old and inefficient plant and legacy systems, processes and operational models that have historically been geared toward a public sector central planning regime.

Competitive analysis indicates that Territory Generation must become more efficient and reliable in order to take up the challenge of competition. It is estimated that in the Darwin/Katherine system the business is at least 5% more expensive than a potential new entrant.

In summary, it is not sustainable to remain the same. Doing nothing and failing to close the gap by becoming more efficient is likely to result in a loss of market share, which means that the business will become smaller and less commercially attractive. The business cannot afford to lose control of its own destiny and let others take the lead in the reformed electricity market. The business must change; otherwise it will become increasingly uncompetitive and irrelevant.

The need to change, however, 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. In addition, Territory Generation has responsibilities as the generator of last resort in the Territory, which adds significant capital and operational costs to the business. These responsibilities include carrying spinning reserve as well

as sufficient redundancy capacity in all markets (including “n-2” redundancy on gas and “n” redundancy on diesel).

These responsibilities are reflected in the mission/purpose statement, which is:

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

A set of values has been developed that underpin the way staff will work with each other and the way business will be conducted and these are denoted by the acronym FIRST:

**Focus, Integrity, Respect, Safety, Teamwork**

The vision has been defined in terms of seven key objectives, as follows:

1. To do no harm to people or the environment. Safety is the business’ highest priority and is not negotiable.
2. To continuously improve best practice, stand-alone IT systems and business processes that meet the business’ needs.
3. To successfully participate in the wholesale electricity market and its development, facilitate retail competition, and exceed customers’ expectations.
4. To achieve and maintain efficient and reliable core business operations.
5. To have satisfied/aligned people working as one team, with a positive culture and capability aligned with the business’ needs.
6. To become fit for growth.
7. To maintain financial sustainability.

A number of strategic initiatives have been identified that will be implemented over the planning period to deliver the outcomes required to achieve each of these objectives. Some of the key strategic initiatives include the following:

- Specific Safety Systems and Programs – safety systems and programs will be developed and enhanced that specifically meet the needs of the business. This is important because it will support the prevention of workplace illness and injuries, create the framework for compliance, and assist with workforce engagement and the development of a positive safety culture.
- Functional Information systems Transformation (FIT) project - an integrated ERP software system will be implemented that will ensure Territory Generation is in a position to take in-house all roles, functions and services that are currently provided by PWC under the Transitional Services Agreement (TSA). The new systems will drive improvement and consistency in business processes, consolidate and reduce the number of IT Systems, assist with simplification and standardisation of processes, and reduce interfaces between systems.
- Optimised Operations and Maintenance Delivery Model – to become more efficient and reliable, a number of different models have been explored for the delivery of operations and maintenance services for the T-Gen power stations. The approach of potential competitors has been analysed and current industry best practices have also been investigated. Based on this analysis, a centralised model has been identified as a potentially viable option that will meet the business’ future needs. However, at this stage it is only conceptual and requires further investigation.

An implementation plan has been developed for each of the strategic initiatives to identify key activities, timing and resource requirements. Further, comprehensive KPIs have been identified with appropriate measures and targets over the planning period. A focussed and disciplined program management approach will be adopted by the organisation to ensure success and this will involve periodic monitoring and reporting of progress.

## 2 Introduction

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

The Corporation is a Government owned corporation (or GOC) under the *Government Owned Corporations Act* (GOC Act). In accordance with the GOC Act, the Corporation's board of directors (Board) is:

- responsible for the operation of the Corporation; and
- accountable to the Shareholding Minister for the financial performance of the Corporation.

Power Generation Corporation is trading as "Territory Generation".

Territory Generation's Board is required to provide an agreed SCI each financial year under Section 39 of the GOC Act.

Section 40 of that Act provides that a SCI must specify, in respect of the financial year to which it relates and each of the two following financial years, the following information:

- the objectives of the Corporation;
- the nature and scope of the activities to be undertaken by the Corporation;
- the material risks faced by the Corporation;
- the strategies to minimise the material risks faced by the Corporation;
- the strategies to improve the financial performance of the Corporation;
- the approved capital investment plans of the Corporation;
- the financial targets and other measures by which the performance of the Corporation may be judged;
- the accounting policies to be applied in the accounts of the Corporation; and
- any other matter that may be agreed on by the Shareholding Minister and Territory Generation's Board of Directors.

## 3 Overview of the Corporation

### 3.1 Overview

#### 3.1.1 History

The Power Generation Corporation, trading as Territory Generation, was established under the PGC Act and a new Board was formed on 29 May 2014. Via transfer regulations made under the GOC Act, the assets were transferred from PWC to Territory Generation, and operations commenced on 1 July 2014, with the CEO appointed on 21 July 2014.

The structural separation of Power and Water Corporation's (PWC's) monopoly and contestable businesses into three standalone GOCs forms part of the Territory Government's reform program that is designed to remove inefficiencies and more effectively restrain costs and prices in the Territory's electricity supply industry.

To this end, the reform program seeks to improve the competitive environment for the generation, supply and sale of electricity by establishing a range of pro-competitive measures.

As they relate to Territory Generation, the current reforms are designed to provide for more effective and accountable management of the Government owned power generation business, and improve incentives for the business to operate efficiently and sustainably.

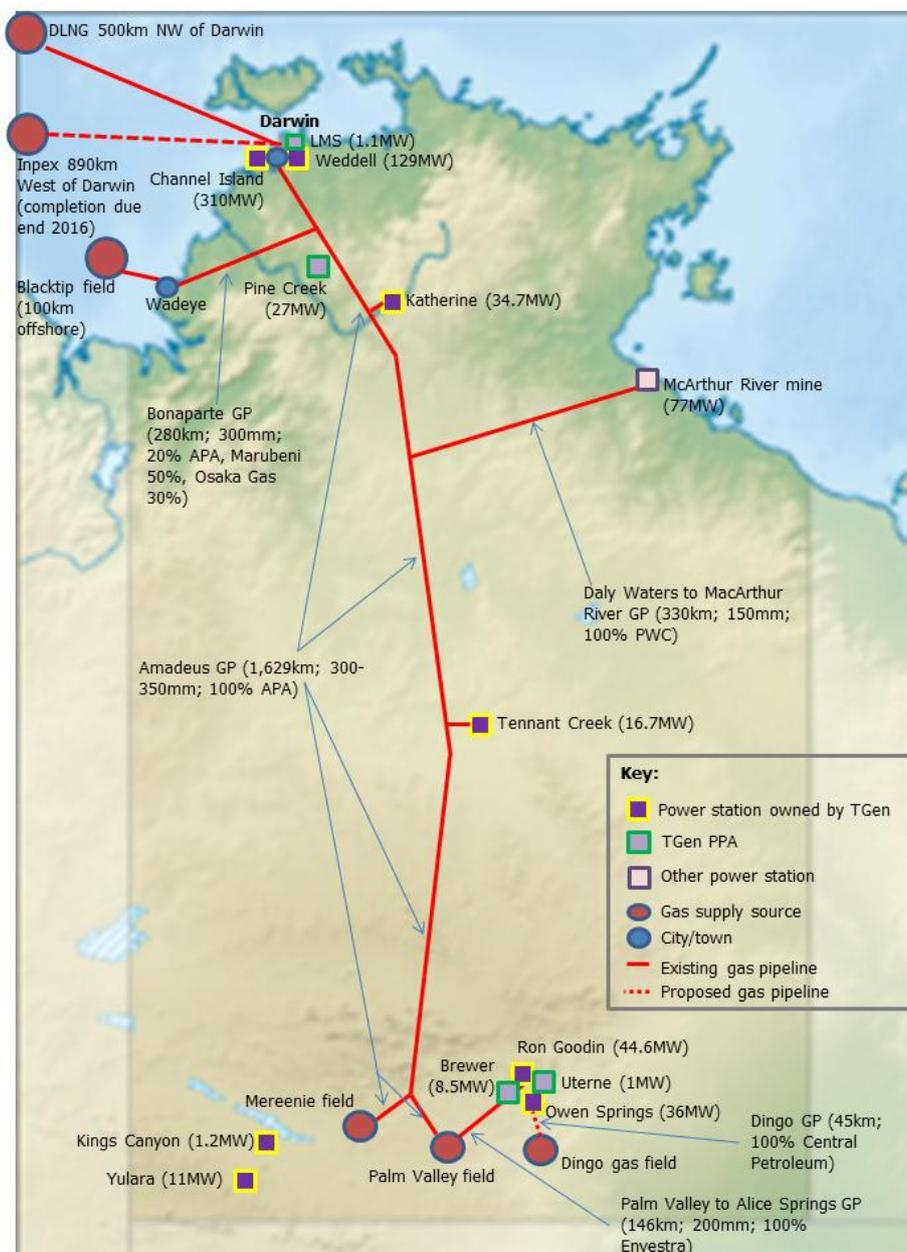
#### 3.1.2 Assets

Territory Generation owns and operates the following generation facilities:

Region/ Location	Engine	Age	Total Capacity (MW)
Darwin/Katherine Region			
Channel Island	8 turbine sets (gas or diesel) and 1 heat recovery steam turbine	6 sets 28 years old, 1 set 14 years old, and 2 sets 3 years old	310.0
Weddell	3 turbine sets (gas)	2 sets 6 years old and 1 set near new	129.0
Katherine	4 turbine sets (gas or diesel)	3 sets 27 years old, 1 set 2 years old	34.7
Total			473.7
Alice Springs Region			
Ron Goodin	8 reciprocating sets (2 diesel only, 6 gas or diesel) and 1 turbine (gas or diesel)	4 sets between 40-50 years old, 5 sets between 30-40 years old	42.5
Owen Springs	3 reciprocating sets (gas or diesel) and 1 turbine (gas or diesel)	3 sets 3 years old, 1 set 10 years old	37.0
Total			79.5
Other Regions			
Tennant Creek	11 reciprocating sets (5 gas, 6 diesel) and 1 turbine (gas or diesel)	5 sets 30 years old, 5 sets 14 years old, 2 sets between 6-10 years old	16.5

Yulara	10 reciprocating sets (4 gas, 5 diesel, and 1 gas or diesel)	3 sets between 25-30 years old, 4 sets 14 years old, 3 sets less than 7 years old	11.2
Kings Canyon	3 reciprocating sets (diesel), 1 solar set	3 reciprocating sets 5 years old, solar set 11 years old	1.3
Total			29.0
<b>Grand Total</b>			<b>582.2</b>

The stylised map below shows the locations of the Corporation’s key power station assets and related gas supply infrastructure.



In summary, the Corporation’s assets are of variable quality. Some of the plant is very old and obsolete requiring additional maintenance and employee support. While some of the other plant

and units are quite new, there is little uniformity of the type of plant and equipment. The implications of this are:

- The overall efficiency and reliability of the plant is not satisfactory. Some plant needs to be enhanced and optimised to meet new entrant pricing.
- There are generally increased maintenance, fuel costs and employee support requirements for the older plant.
- The Corporation is inhibited in its ability to obtain synergies with spares across the fleet.
- The diversity of equipment inhibits resource mobility and knowledge sharing across all regions.

### **3.1.3 Power Purchase Agreements (PPAs)**

Territory Generation has four PPAs with third parties, as follows:

- Pine Creek - the Pine Creek power station is located in the Darwin/Katherine region and it is owned by EDL NGD Pty Ltd. The power station has 26.6MW of combined cycle natural gas generating capacity.
- LMS Shoal Bay - the LMS Shoal Bay power station is located in the Darwin/Katherine region and it is owned by Landfill Management Services Pty Ltd. The power station has 1.1MW of landfill gas generating capacity.
- Brewer – the Brewer power station is located in the Alice Springs region and it is owned by Central Energy Power Pty Ltd. The power station has 8MW of natural gas generating capacity.
- Uterne - Uterne is a solar power station located in the Alice Springs region and it is owned by Uterne Power Plant Pty Ltd. The power station has 1.0MW of solar generating capacity. The Uterne Solar power station is currently undergoing expansion to 4MW.

The key strategic implications arising from the PPAs are as follows:

- The Pine Creek and Brewer PPAs are due to expire and the Corporation needs to assess whether or not to seek to extend them.
- If they are not extended, then the counter party may either become a potential competitor or may withdraw from the market, requiring Territory Generation to adjust its operational strategy.

### **3.1.4 Gas Supply**

Territory Generation has entered into a short term gas supply contract with PWC incorporating:

- Base commodity gas price.
- Transportation to Territory Generation's delivery points.
- PWC gas unit operating and overhead costs.

The transportation and overhead costs are not reflective of Territory Generation's utilisation of the Northern Territory gas pipelines, hence the Corporation is seeking to negotiate a long term gas supply agreement with PWC during 2015 to better reflect the usage profile.

PWC also supplies emergency gas through its contract with DLNG. Territory Generation will pay for this gas as required.

The key strategic implications arising from the current gas portfolio are as follows:

- The cost of delivered gas is the most significant cost driver for the business.
- The Corporation does not have control over its long term gas position and needs to enter into a long term gas contract that provides commercial certainty, is reflective of utilisation of the pipeline, and is commercially acceptable to enable the business to become competitive.

### 3.2 External Analysis – Stakeholders

Stakeholder	Our View of Their Wants/Needs
Shareholder (representing Territorians)	<ul style="list-style-type: none"> <li>▪ 'Keep the lights on' (reliable).</li> <li>▪ Safe working environment.</li> <li>▪ Lowest cost of supply to consumers in the long run. They want the Corporation to embrace and facilitate the electricity reforms.</li> <li>▪ Reasonable return on their assets for the risk taken.</li> <li>▪ Transparency of costs and performance.</li> </ul>
Customers (retailers)	<ul style="list-style-type: none"> <li>▪ Transparent and 'fair' pricing.</li> <li>▪ Longer term certainty of pricing.</li> <li>▪ Flexibility.</li> <li>▪ Territory Generation to facilitate competition in the retail market (i.e. assist, but not favour, potential new entrants).</li> </ul>
Key suppliers (gas, equipment manufacturers, contractors)	<ul style="list-style-type: none"> <li>▪ Continuity of mutually beneficial work and clarity of roles (i.e. build closer, longer term relationships).</li> </ul>
Market (regulators, System Control, PPA parties, market implementation committee)	<ul style="list-style-type: none"> <li>▪ The wholesale market to be operational as soon as possible. Territory Generation needs to contribute and participate for it to be effective.</li> <li>▪ Improved communication.</li> </ul>
Potential Competitors	<ul style="list-style-type: none"> <li>▪ Despite supply significantly exceeding demand in the medium term in the Darwin-Katherine grid, there is currently a threat of new entry.</li> </ul>
Unions	<ul style="list-style-type: none"> <li>▪ Want us to succeed.</li> <li>▪ Maintain job security, wages and conditions and the status quo.</li> <li>▪ Openness and engagement.</li> </ul>

### **3.3 Sustainable Competitive Advantages**

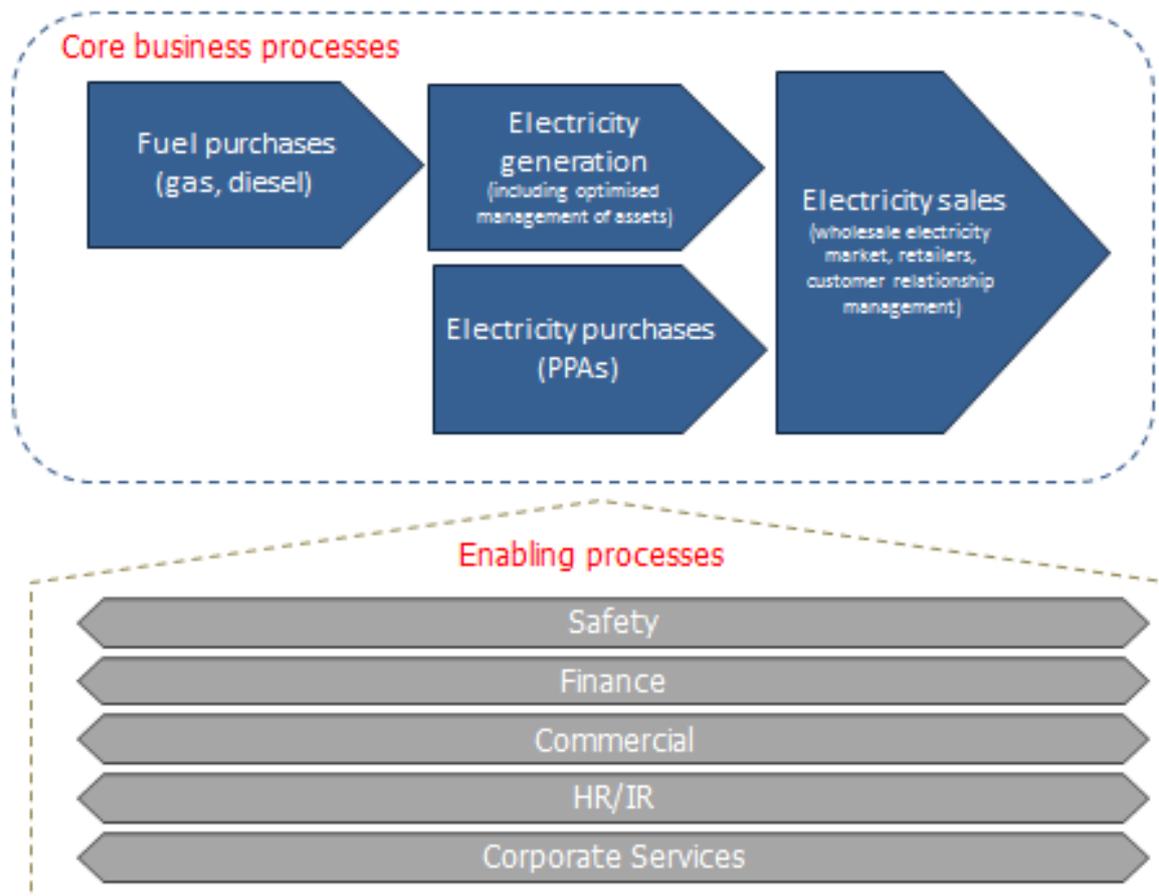
Sustainable competitive advantages are long term in nature and not easily replicated by potential competitors. It is important to understand the key things that are unique to the business because they will assist with defining how the business will compete in the future and also identify potential growth areas.

Key competitive advantages are:

- The experience and capability of successfully working in remote, small systems/networks and regions. In addition, staff are adaptable, flexible and innovative in their approach to working in remote, tropical areas.
- Significant GE Frame 6 experience.
- Based on the door-step of the fast growing South East Asia region which provides opportunities for future potential growth aligned with the other competitive advantages.

### 3.4 Business Model

The diagram below summarises the key processes within the business, how they relate to each other, and ultimately how the business earns revenue and derives a commercial return.



In its simplest form, Territory Generation’s business involves procuring fuel to generate electricity from its own power stations and procuring electricity from PPA partners in order to sell it to retailers.

The Enabling Processes span the entire business and support and underpin the core business processes.

## 4 Market Analysis

### 4.1 Market Structure

The NT electricity market comprises three independent systems, being Darwin/ Katherine, Alice Springs and Tennant Creek.

Total peak demand (MW) and energy sent out (MWh) in each of these systems in 2013/14 is presented in the table below, as well as the expected average annual peak demand growth rate:

	<b>Peak Demand 2013/14 (MW)</b>	<b>Forecast Peak Demand Growth</b>	<b>Total Sent Out 2013/14 (GWh)</b>
Darwin/Katherine	281.2 (294 in 2012/13)	1.9%	1,550.5
Alice Springs	51.9 (57.1 in 2012/13)	0.3%	216.1
Tennant Creek	6.9 (7.1 in 2012/13)	0.5%	30.9

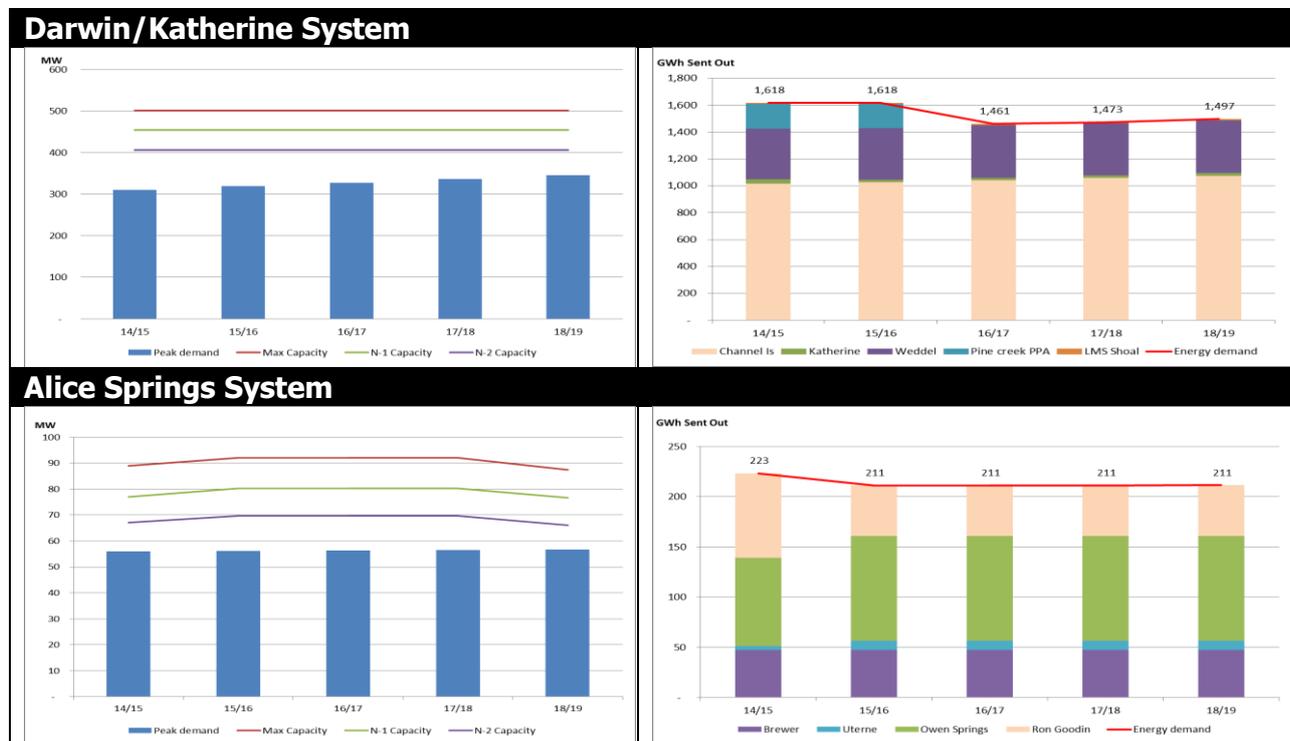
Presently, Territory Generation is the only licenced electricity generator in the contestable regions of the Northern Territory, with Independent Power Producers (IPP) supplying to Territory Generation through PPA contracts. Territory Generation then sells electricity through bilateral contracts to licenced electricity retailers. Current customers include:

- Jacana Energy.
- Power and Water Retail.
- QEnergy.
- ERM Power Retail.
- Rimfire Energy.

Of the projected energy volume to be supplied by Territory Generation in 2014/15, 87% of this is supplied by power stations owned by the business and the remaining 13% is purchased under PPA contracts. There is potential competition from private generators, specifically in Darwin/Katherine. With future competition through a Northern Territory electricity spot market, Territory Generation is seeking to reduce costs to produce electricity to that of a new entrant, in order to promote efficient competition in the sector.

Territory Generation has additional responsibilities as the generator of last resort in the Territory, which adds significant capital and operational costs to the business. These responsibilities include carrying spinning reserve as well as sufficient redundancy capacity in all markets we operate in (including "n-2" redundancy on gas and "n" redundancy on diesel).

The diagrams below show the projected demand and supply balance for the two key regions of Darwin/Katherine and Alice Springs over the planning period for both energy and peak demand.



The graphs highlight that even under “N-2” redundancy assumptions, peak demand can be met from the existing supply configuration in both regions.

## 4.2 Market Mechanisms

The NT Government is currently in the process of establishing an interim wholesale electricity market in the Darwin Katherine region, with the expectation of a final market existing by 2016/17. It is expected that a wholesale electricity market will be established in the Alice Springs and Tennant Creek regions, however the timing remains uncertain. The aim of the market is to promote more efficient generation pricing in the NT, by encouraging private competitors to enter the market. The wholesale market is intended to replace the current reliance on bilateral contracts between Territory Generation and the retailers with a physical market.

The initial design of the market was published by the Utilities Commission in February 2014 and will consist of:

- An energy only spot market.
- A reliability based capacity market.
- Ancillary services to be procured on a contract basis.

An interim trial of the energy only portion of the market will be introduced from mid-2015 in the Darwin Katherine System. This trial is expected to run for 12-18 months, during which time the final rules for each of the above elements of the market will be established.

### **4.3 Implications of Market Analysis**

The key strategic implications arising from the market are as follows:

- No new capacity is required in the market for the planning period.
- There is a threat of new entry in the market in the Darwin/Katherine region leading to additional over-capacity and potentially a reduction in the volume of electricity Territory Generation is required to produce.
- In order for Territory Generation to be cost competitive, it needs to become significantly more efficient both through optimisation of plant and dispatch as well as a reduction of fixed costs.
- Territory Generation is a key participant in the market trial. This will involve contributing to the development of the market rules, its structure and also developing internal systems and processes.
- The wholesale market structure is not yet fully defined which will impact on Territory Generation's strategic positioning moving forward.
- Territory Generation expects to see improvements in efficiencies, as the power system controller focuses on the development of market mechanisms including economic dispatch, clarity of ancillary services and related cost implications.
- The capture, analysis and reporting of key operational and market data is critical for future success and this will evolve and be developed over time.

## 5 Strategic Intent

### 5.1 Vision

Territory Generation’s vision is:

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

Territory Generation has carefully defined the meaning of its vision statement as follows:

Trusted and respected	<ul style="list-style-type: none"> <li>▪ Safety will be universally recognised as the highest priority.</li> <li>▪ We will be known for being reliable and keeping the lights on.</li> <li>▪ Our proven capability and reliability will create confidence with our stakeholders to the extent that we will be given an opportunity to participate in the next new major additional generation plant required in the Territory.</li> <li>▪ We will ensure that our market pricing and structure is transparent and open.</li> </ul>
Electricity generation	<ul style="list-style-type: none"> <li>▪ Our core business is the generation and sale of electricity.</li> </ul>
Business	<ul style="list-style-type: none"> <li>▪ We will be a commercial organisation that is highly efficient and financially sustainable.</li> <li>▪ Best practice and efficient systems and processes that enable us to deliver high quality services.</li> </ul>
Of Choice	<ul style="list-style-type: none"> <li>▪ We will exceed the expectations of our customers.</li> <li>▪ We will be competitive with other players in the market.</li> <li>▪ We will be an employer of choice.</li> </ul>

### 5.2 Mission/Purpose

Territory Generation’s purpose is to:

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

### 5.3 Values

Our Values	What this means	What we say / do
<b>F</b> OCUS	<b>We focus our efforts on delivering a safe, reliable and cost efficient operation that we are all proud to be part of.</b>	<p>We understand what is important to our success and we prioritise accordingly.</p> <p>We deliver considered and timely outcomes.</p> <p>We are competent in what we do and understand our roles.</p> <p>We take responsibility and accountability to deliver on our agreed objectives.</p> <p>We look for opportunities to improve everything we do.</p>
<b>I</b> NTEGRITY	<b>We are open and honest with our words and actions "to say and do the right thing".</b>	<p>We are trustworthy and honest.</p> <p>We take responsibility for our words and our actions.</p> <p>We do what we say we will do.</p> <p>We do the right thing and comply with all legislation and procedures.</p> <p>We challenge when our Values are not adhered to.</p>
<b>R</b> ESPECT	<b>We show respect for our team mates, the environment, and the communities in which we work.</b>	<p>We are professional in our interactions, offering trust and support and treating people the same way as we would like to be treated.</p> <p>We do not tolerate or ignore inappropriate comments or bullying.</p> <p>We respect other cultures and treat people equally, regardless of gender, age, nationality or religion.</p> <p>We treat our people, assets and finances respectfully, and comply with governing laws, regulations and company procedures.</p>
<b>S</b> AFETY	<b>We conduct our business and our roles with a strong focus on avoiding injury or damage to assets and the environment. Safety is not negotiable.</b>	<p>We recognise safety is first in everything we do.</p> <p>We take responsibility for ensuring our own safety and lookout for our workmates and others we work with as well.</p> <p>We do not walk past or ignore what is not safe.</p> <p>We adhere to safe work practices, processes and procedures.</p> <p>We ensure that safety is considered in our planning, our work and our actions.</p>
<b>T</b> EAMWORK	<b>We are one team, with aligned goals working together to achieve Territory Generation's Vision.</b>	<p>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.</p> <p>We look for better ways to operate more efficiently and willingly share our ideas and information within the Territory Generation Team / business.</p> <p>We volunteer to help others as needed and we encourage each other to challenge the process to find a better way.</p>

## 5.4 Over-arching Target

The over-arching target defines what the business wants to achieve at the highest level over the planning period, which is:

**To become a commercially focussed business offering market competitive pricing and services within 3 years.**

## 5.5 Overview of Objectives

Territory Generation has identified seven key objectives that define the achievement of its vision, as follows:

Objectives	Meaning
<p>1 To do no harm to our people or the environment. Safety is our highest priority and is not negotiable.</p>	<p>Safety is paramount to Territory Generation and our objective is to ensure that we cause no harm and embed a safe working environment into everything we do. Everyone is responsible for safety, including our contractors, and our expectation is that safety is non-negotiable and will be given the highest priority. As a power generator that uses fossil fuels, Territory Generation is conscious of its emissions and is committed to minimising our overall impact on the environment as far as practicable.</p>
<p>2 Continuously improve best practice, stand-alone IT systems and business processes that meet Territory Generation's needs.</p>	<p>Territory Generation is a significantly different business from PWC and it is critical for us to develop and implement IT systems and business processes that are relevant and cost effective for our purposes. As part of the separation, there have been a number of processes and activities being undertaken on our behalf by PWC for a transition period. These activities are gradually being taken up by Territory Generation and our objective is to ensure that we are able to perform all key processes ourselves before the end of the transition period. Once completed, we will be able to operate as a fully stand-alone and separate business from PWC. Beyond this transition period, we will continuously improve and enhance our systems and processes to ensure they are efficient and meet our evolving needs.</p>
<p>3 Successfully participate in the wholesale electricity market and its development, facilitate retail competition, and exceed the expectations of our customers.</p>	<p>Territory Generation will be a key player in the Wholesale Electricity Market (WEM) once it commences and we have a responsibility for, and an interest in, assisting with the development of the market, including its structure and its rules. Our objective is to ensure the market operates transparently, fairly and cost effectively. As part of the development phase, we will participate in the market trial and assist with defining the related systems and processes. Concurrently, our objective is to ensure that we have the capability (IT systems, business processes, skills and knowledge) to operate in the market once it formally commences. We recognise that part of our role in the broader market is to supply all existing retailers and potential new entrants. Our objective is to ensure all customers are treated equally and fairly and that there are no barriers to entry as a result of our operations. Although we have a small number of customers, our commercial</p>

		relationships are complex, often involving significant volumes of data, different contractual forms and multiple interfaces. Our objective is to work closely with our customers and ensure that our services exceed their expectations.
4	Efficient and reliable core business operations.	In order to compete effectively in the WEM and offer our customers competitive market prices, Territory Generation must ensure that its core business operations of electricity purchasing, fuel purchasing and electricity generation are efficient and reliable. 'Reliability' means that we are always able to deliver electricity to our customers to meet their requirements and fulfil our commitments. As the main generator in the Territory, we must also be able to meet the requests of System Control to ensure we fulfil our obligations with respect to keeping the lights on. Efficiency is a pivotal driver of our success because we can only offer competitive pricing by optimising our costs in every part of our business. Efficiency is focussed not only on costs but also on outputs, our assets and the way we undertake our work.
5	Satisfied/aligned people working as one team, with a positive culture and capability aligned with Territory Generation's needs.	Our people and our culture are the cornerstone of our business and our objective is to galvanise our workforce into one team with no geographical or functional boundaries. As one company, we need to work together and support each other to ensure Territory Generation is successful and has the capability to be a competitive market leader in the future. Although the journey may be challenging and require change, it is achievable if we adopt a positive, team-oriented approach. A key part of our people strategy is to ensure that we have an appropriately diverse range of age, gender, ethnicity and training opportunities in the organisation.
6	Fit for Growth.	In the first two years of the planning period, growth will not be a high priority for Territory Generation. Our primary objective in this initial period is to get fit for growth, which means we will build and shore up our core foundations so we have a solid platform upon which we can grow. Although growth will not be our core focus during this initial period, we will be undertaking some key growth activities such as keeping abreast of the market and our competitors, undertaking high level market analysis, and identifying opportunities for future growth. Once we are fully fit for growth in approximately two years' time, we will commence more detailed growth strategies.
7	Financial sustainability.	As a commercially focussed business, it is important that we are financially sustainable. This means that we are able to deliver an appropriate return to our shareholders, achieve market competitive pricing for our customers, optimise our risk portfolio, and invest sufficient funds in our assets and our people to ensure we continue to be successful over the long term. We also want to be recognised as a good corporate citizen. Our financial sustainability objective both drives and depends on the success of our other objectives and it is critical that a commercial focus is integrated into everything we do.

## 5.6 Strategic Themes and Critical Success Factors (CSFs)

The following have been identified as critical to the successful achievement of the vision and objectives:

- People – people are the business’ greatest asset. Safety must remain the highest priority and as the business develops and changes, its people and our culture needs to align with the strategic direction of the business. People need to continue to be trained and up-skilled to meet future capability requirements.
- Gas – gas purchases are the single biggest cost driver in the business. The usage and cost of gas must be optimised and a long term supply and transportation agreement successfully negotiated with PWC.
- Efficient and reliable plant – the reputation of the business rests on the reliability of plant. There must be confidence and certainty that the organisation has the capability to deliver reliably in order to earn the respect of key stakeholders. Efficiency is central to the strategy of becoming a commercially focussed organisation that can compete effectively in the future.
- IT systems and business processes – the business needs to move away from the legacy PWC systems and processes and develop and enhance its own to meet the needs of the business.
- Stakeholder relationships – key external stakeholders (Shareholder, customers, suppliers, regulators and unions) are an integral part of the business and strong relationships must be built and maintained with them.
- A focus on implementation – there are significant changes required in order to achieve the business’ objectives. The implementation of the Strategic Plan and the related management of change will require discipline and focus.

## 5.7 Strategic Initiatives

### 5.7.1 Strategic Roadmap

The diagram following illustrates the key strategic work streams (referred to as ‘strategic swim lanes’ of activities) over the planning period.

On a day to day basis the business will routinely deliver core business as usual activities. Over time, the core and enabling business processes will be continuously improved so the organisation is constantly moving toward becoming increasingly safe, efficient and reliable. The other strategic work streams support and feed into continuous improvement.

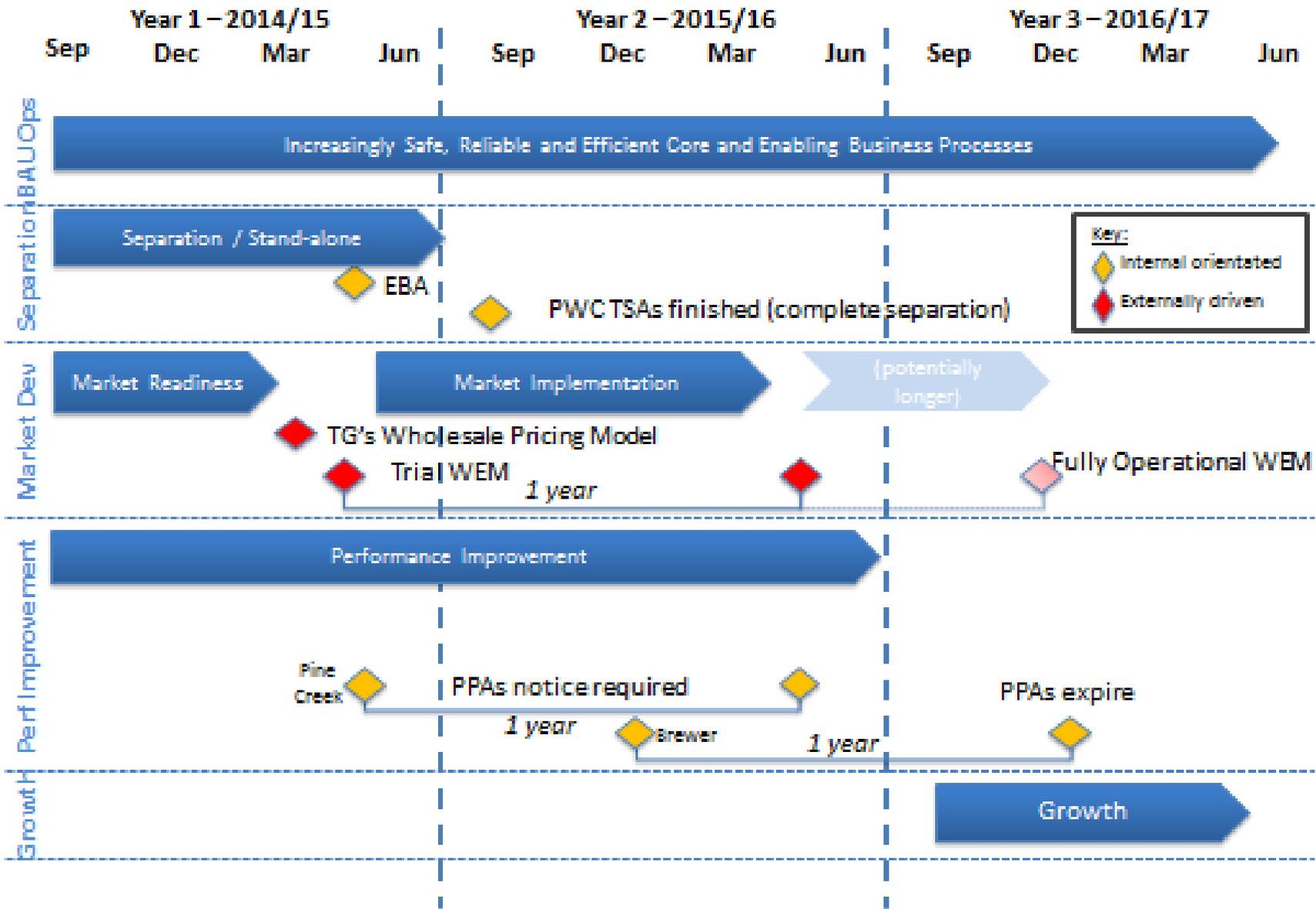
A key focus in the first year is to develop and implement stand-alone IT systems and business processes that meet the business’ needs. This ‘stand-alone’ work stream forms part of Objective 2 and it encompasses the gradual transition away from the services provided by PWC so Territory Generation is able to move quickly towards complete independence.

In parallel, the WEM is being developed, trialled and implemented. This key ‘market’ work stream forms part of Objective 3 and it involves a number of activities that ensure the business is fully capable of participating in the market when it commences. The market environment is also characterised by the potential threat of new entrants emerging in the Darwin/Katherine region.

A key strategic focus for the first two years is to improve performance so the business is efficient and reliable and able to offer market competitive prices and services to customers as soon as

possible. While performance improvement is an ongoing activity, key organisational changes will occur over the upcoming years. This aligns with other milestones such as the commencement of the market and also increased potential for competitor entry. Two key PPA contracts expire during the SCI period and both have notification periods for potential re-negotiation, so a separate specific strategic initiative has been identified to focus efforts on these contracts.

To ensure the business is focussed and disciplined with the major program of work in the first two years, it is intended that growth will not be actively pursued until at least until the third year of the plan, and only after solid core, efficient and reliable business foundations have been built. That way, the business is well positioned to support the development and integration of new growth.



### 5.7.2 Overview of Strategic Initiatives and Key Performance Indicators (KPIs)

A number of strategic initiatives have been identified that will collectively achieve the Corporation’s objectives. The strategies will be implemented over the course of the planning period.

Objectives		KPIs	Key Strategies
1	To do no harm to our people and the environment.	<ul style="list-style-type: none"> <li>▪ No LTIs and LTIFR = 0 for every year.</li> <li>▪ 100% of all hazards and near misses are reported.</li> <li>▪ 90% of all safety incidents are reported within 24 hours.</li> <li>▪ Zero major environmental incidents.</li> <li>▪ Ensure the volume of environmental discharges does not exceed target levels.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop and implement Territory Generation specific safety programs.</li> <li>▪ Undertake a strategic review of our approach to managing the environment and develop and implement strategies to achieve optimal performance.</li> </ul>
2	Continuously improve best practice, stand-alone IT systems and business processes that meet Territory Generation’s needs.	<ul style="list-style-type: none"> <li>▪ New IT system successfully implemented on time and within budget.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement new information systems for finance and core operations. This will be managed as a dedicated project and is planned to be completed in mid-2015.</li> </ul>
3	Successfully participate in the wholesale electricity market and its development, facilitate retail competition, and exceed the expectations of our customers.	<ul style="list-style-type: none"> <li>▪ Full capability to trade in the wholesale electricity market once it commences.</li> <li>▪ Territory Generation does not impede or delay the start of the WEM in any way.</li> <li>▪ Stakeholder survey results &gt; 70% in each year.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop market-based pricing models and align our retail contracts accordingly.</li> <li>▪ Provide input into the design of the WEM, participate in the trial market and build capability to participate in the full market when it commences.</li> <li>▪ Develop and implement a customer relationship management strategy.</li> </ul>

Objectives	KPIs	Key Strategies
<p>4 Efficient and reliable core business operations.</p>	<ul style="list-style-type: none"> <li>▪ Availability greater than the agreed annual target for each power station.</li> <li>▪ Efficiency greater than the agreed annual target for each power station.</li> <li>▪ By 2016/17, 95% of all major projects are delivered on time and within budget.</li> <li>▪ Long term gas contract successfully negotiated.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop an Integrated Asset Management Plan.</li> <li>▪ Develop an asset replacement strategy.</li> <li>▪ Develop and implement an operations delivery strategy and a maintenance delivery strategy.</li> <li>▪ Standardise/enhance core operational systems/processes.</li> <li>▪ Optimise the PPA position.</li> <li>▪ Optimise gas arrangements including finalisation of a long term contract.</li> <li>▪ Commercialise the provision of ancillary services provided to the WEM.</li> </ul>
<p>5 Satisfied/aligned people working as one team, with a positive culture and capability aligned with Territory Generation's needs.</p>	<ul style="list-style-type: none"> <li>▪ Staff survey results &gt;72% overall engagement by 2018.</li> <li>▪ Workforce and diversity plan developed by end June 2015.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Renew the current EBA which is due to expire in May 2015.</li> <li>▪ Undertake leadership team and workforce planning and training.</li> <li>▪ Develop a succession plan.</li> <li>▪ Develop and implement diversity and culture enhancement strategies.</li> </ul>

<b>Objectives</b>		<b>KPIs</b>	<b>Key Strategies</b>
6	Fit for Growth.	<ul style="list-style-type: none"> <li>▪ Growth plan developed and approved by the end of June 2016.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Undertake a review and analysis of the broader market in NT and related opportunities.</li> </ul>
7	Financial sustainability.	<ul style="list-style-type: none"> <li>▪ Return on equity within planned range over the planning period.</li> <li>▪ Gearing within planned range over the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement the risk management framework and related processes.</li> </ul>



## 6.2 Key Risks and Mitigation Strategies

The table below summarises the top six risks facing the organisation. These risks are based on information provided by PWC, and subsequent review and analysis. As noted above, further work is required to review and refine the risk register. The risk ratings are calculated on a multiple of likelihood and the maximum reasonable impact should the risk occur. The risks do not only reflect the likelihood of an event occurring. Achieving the residual risk level requires, in some areas, investigation and action to ensure the risk is appropriately managed:

Key Risk		Raw Rating	Key Mitigation Strategies		Residual Rating
1	Inability to supply power due to fuel.	High	1 2 3	Diesel storage for short term at Channel Island other sites longer term. Dual fuel machines or other diesel capacity. Explore alternative dual redundancy gas supplies.	High
2	Inability to supply power due to severe weather damage restricting ability to produce full requirements.	High	1 2 3	Design of plant. Remove potential flying objects. Procedures.	High
3	Breach of regulations/legislation.	High	1 2 3	Procedures. Training. Policies and audits.	Medium
4	Inability to supply power due to age and reliability of plant.	High	1 2 3 4	Critical Spares and reverse engineering. Regular servicing. OEM involvement where possible. Plan to replace as appropriate.	Medium
5	Staff - skills and retaining and attracting staff.	High	1 2	Training and developing staff. Adopting Employer of Choice Strategies.	Medium
6	Lack of standard systems and robust processes.	Very high	1 2 3	Simplifying and improving business systems. Auditing and changing procedures. Standardising across all sites.	Medium