TERRITORY GENERATION

2017–18

# ANNUAL REPORT

POWERING THE NT

# 2017–18 HIGHLIGHTS

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# ABOUT THIS REPORT

THE 2017–18 ANNUAL REPORT OF POWER GENERATION CORPORATION (TRADING AS TERRITORY GENERATION) SUMMARISES OPERATIONS AND ACHIEVEMENTS FOR THE FINANCIAL YEAR. AS PER SECTION 44 OF THE *GOVERNMENT OWNED CORPORATIONS ACT*, THE REPORT INFORMS THE NORTHERN TERRITORY PARLIAMENT, 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 in compliance with the Act.

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

It provides a statement of the financial position of the Corporation, including the achievements, income and expenditure for the 2017–18 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 fourth annual report following the introduction of structural reforms to the Northern Territory electricity industry.

## COVER IMAGES:

Set 15 Turbine Tennant Creek

Gas Training

Channel Island Unit 9

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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
- 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

## 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.

### FOCUS

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

- 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), we are pleased to present our fourth annual report, for the year ended 30 June 2018, in accordance with the provisions of sections 41 and 44 of the *Government Owned Corporations Act*.

**Dennis Bree**
Director and Chair

**Tim Duignan**
Chief Executive Officer

# CHAIR'S MESSAGE

The last year has been a difficult one for the organisation as the impact of renewable energy has been felt. We are in an important transition as the Territory moves to 50 per cent renewable energy by 2030. The long-term benefits for customers and the environment are clear but there are costs that will be borne by Territory Generation as the business environment stabilises.

Territory Generation has a vital role to play in supporting the Northern Territory's transition to solar power and renewable energy.

The acceptance of the *Roadmap to Renewables Report's recommendations* by the Northern Territory Government confirmed Territory Generation's position as the generator of last resort and that it will not have a major role in solar power generation in the Darwin/Katherine system. This clarity has allowed Territory Generation to refine its strategic intent.

The Board considers that the most appropriate model for all stakeholders – customers, competitors and government – is to recognise that we are going through a transition phase in the industry and we should minimise disruption to customers.

In the absence of a fully developed market design, the Board has recommended and the government has accepted that it forgo its return on capital and recognise the decreased value of Territory Generation's assets through impairment. These decisions create a new base on which Territory Generation can build a sustainable business.

A significant issue for Territory Generation is that at this stage only thermal generation can provide the stability and reliability that the system requires with increasing amounts of solar generation and we do this on a decreasing revenue base.

We look forward to being involved as appropriate in the development of system reliability standards and ancillary services charging mechanisms which will ameliorate these concerns.

The Board acknowledge the review into Territory Generation by Mr Jim Colvin that was handed down in December 2017, and the subsequent resignation of the previous Board.

The current Board was appointed in December 2017 and, speaking on behalf of the Board, we are delighted to be involved in this challenging but rewarding business environment. We are focused on working with the Executive Leadership Team to implement the 2018–19 Statement of Corporate Intent and aspire for Territory Generation to be a trusted advisor to government.

The Board is committed to providing a safe workplace and has supported management's efforts in this area throughout the year. The Board considers safety to be Territory Generation's number one priority.

Territory Generation's people have weathered a period of immense change while continuing to provide reliability and grid stability for our end customers. I would like to thank staff for their professionalism, commitment and dedication, it is very much appreciated.

**Dennis Bree**
Director and Chair

# CHIEF EXECUTIVE OFFICER'S MESSAGE

Since inception Territory Generation has set about developing the foundations for the business to meet the demands of the future of electricity generation in the Northern Territory, and is now focused on extracting the value from these investments through achieving the identified efficiencies and reliability milestones.

Safety remains our number one priority, and we are extremely proud of our safety achievements over the reporting period. There has been a significant maturing of safety culture across the business and a shift from a compliance based to a behavioural based safety culture.

An example of this is the introduction of safety glasses as mandatory Personal Protective Equipment in all operational areas. This change was widely accepted and indeed championed by our teams as a positive way to keep each other safe.

Sustained planned and preventative maintenance programs on existing assets has enabled us to continue our record in reliability; this year we set another new reliability record for the Darwin/Katherine system, achieving 1,030 days without a single-contingency under-frequency load shed event (as at 30 June 2018).

The implementation of the 5MW Battery Energy Storage Solution in Alice Springs will improve power generation reliability in that region by helping to smooth the output of solar power, but will also provide significant savings on fuel efficiency and maintenance for Territory Generation.

Further reliability improvements in the Central Australian power supply will be delivered through new power generation units coming on line in late 2018 at the Owen Springs and Tennant Creek power stations. Once fully online, the Owen Springs and Tennant Creek power stations will provide a significant boost to Territory Generation's portfolio.

During the past 12 months, we have experienced a general cultural shift toward ownership, collaboration and accountability across all of our business units.

This has been enabled through the transition to the Operator Maintainer Model and also through the commissioning of the Remote Operations Centre.

Greater visibility of financial and asset management across the business has engendered a sense of ownership and cultivated innovation across operating teams to foster opportunities for greater efficiencies and growth.

The reduction in resource numbers over the reporting period is as expected and represents the flexible approach that was strategically taken to resourcing major and strategic projects. Territory Generation has for some time been focused on becoming fit for competition, and we have achieved efficiencies through the structural reshaping of our organisation.

We will continue to progress and finalise our major projects as quickly as possible, despite delays to the original delivery timeframe. It is important to recognise that these projects are expected to be delivered safely, in an environmentally controlled manner and within budget. The strategic challenge for the future will be to extract the value out of those investments.

The significant achievements made by the business would not be possible without the hard work of our people who have embraced and owned the significant cultural and strategic change of the past year with resilience and dedication. I would like to thank my Executive Leadership Team and all Territory Generation employees for their dedication and commitment during very challenging times.

**Tim Duignan**
Chief Executive Officer

# BOARD PROFILES

## DENNIS BREE

BE, MAICD

**Independent Non-Executive Chair**

Dennis is a civil engineer whose whole career has been in the Territory. Dennis was involved in the recovery from Cyclone Tracy, focusing on structural design with GHD, after which he joined the Commonwealth Government. He focused on water and sewerage, particularly in remote areas before moving into management roles with the Northern Territory Department of Transport and Works and then Power and Water Authority.

Dennis was Executive Director Operations at Power and Water Authority and was responsible for generation as well as other business units.

Dennis has been Deputy Chief Executive of a number of departments and Chief Executive of the Department of Business. Dennis has also been Chief of Staff to two Chief Ministers and two Leaders of the Opposition, most recently a senior advisor to Chief Minister Gunner.

In his private life Dennis has been very involved in rugby union and was President of Northern Territory Rugby Union for ten years and a Director of Australian Rugby Union for four years.

## CHRISTINE CHARLES

BA (HONS), ADJUNCT PROF MAICD

**Independent Non-Executive Director**

Christine is Managing Director of D4G Pty Ltd, and provides strategic advice about external issues and challenges to companies, government and non-government organisations.

Christine has broad knowledge across a number of sectors, having held a variety of positions in the private, public and community sectors and academia. Her understanding of the energy sector is based on several years in an executive role with Newmont Mining and her work within the sector as a specialist. Christine also chaired the Northern Territory Green Energy Task Force and the Northern Territory Mining Board.

Christine was CEO of the South Australian Human Services Department from 1997 to early 2002, after heading the South Australian Cabinet Office. She worked for the World Health Organisation based in Kobe, Japan and for a number of NGOs within Australia. She sits on the Board of Save the Children Australia.

## RICHARD GALTON

BE, MBA

**Independent Non-Executive Director**

Richard graduated as a civil engineer from the University of Sydney in 1972 and started his career with the New South Wales Department of Main Roads. Richard focused on planning, design and construction of motorway and bridge construction projects in Sydney, London and Wollongong for a decade before he was seconded to the Northern Territory in 1982 to manage road network development.

Richard then completed a Master of Business Administration while working in senior management roles within the Northern Territory Public Sector.

Since 1994, Richard has held executive roles in a broad range of Northern Territory Government agencies, most recently in minerals resource and pastoral land management.

# EXECUTIVE LEADERSHIP TEAM PROFILES

## TIM DUIGNAN

**BBUS, MARKETING, ASS DIP (ELEC ENG), AFIE AUST, CENGA, ENGEXEC**

**Chief Executive Officer**

Tim brings a wealth of knowledge to the role with more than 30 years' experience in the electricity generation, retail, transmission and distribution sectors of the energy industry. 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 in Australia and 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**

**General Manager Assets and Operations**

Grant is an electrical engineer with extensive experience in process automation, technology and maintenance management. Grant has more than 20 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 facilities for Hydro Tasmania.

## REBECCA MILLS

**BE (HONS), BEC, MIE AUST**

**General Manager Major Projects**

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

## MARIA WALTERS

**BBUSCOM, CPA, GAICD**

**General Manager Finance and Corporate Services**

Maria is a Certified Practising Accountant with significant experience gained across her career in the power generation industry. Maria holds a Bachelor of Business and Commerce, was awarded a Dean's Honour and is an experienced Board Director. She brings strong technical accounting and analytical skills as well as key experience and knowledge from establishing the accounting processes resulting from the separation from Power and Water.

## STEVE BARTLETT

**BCOM, CA, MBA, GAICD**

**General Manager Commercial**

Steve has extensive commercial experience in heavy industry, covering business analysis and modelling, strategic contracts negotiation and development, and business process improvement. Steve is a Chartered Accountant with more than 24 years across public practice, the resources industry, and the power generation industry.

# WHO WE ARE AND OUR ACHIEVEMENTS

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 5.1MW from Independent Power Producers for supply to our customers (4.1MW solar plus 1MW from Shoal Bay system).

Territory Generation produces approximately 1714GWh 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 taking effect and will continue to impact Territory Generation over the coming years.

## 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 VALUES:

***F – Focus***

***I – Integrity***

***R – Respect***

***S – Safety***

***T – Teamwork***

## OUR ACHIEVEMENTS

Key achievements from the past year include:

- continuing record of 1,030 plus days without a single-contingency under-frequency load-shed event in the Darwin/Katherine system, significantly greater than previous records
- commissioning of the Remote Operations Centre and roll-out of Plant Information Displays Systems
- transition to a station manager model that delegates financial management of power stations to managers
- a move to Lean Project Management practices at Owen Springs Power Station to optimise plant efficiencies
- introduction of an Operator Maintenance Technician (OMT) model and supporting training framework
- completion of the Safe Systems of Work safety management program in the North
- implementation of sustainability initiatives including the new Class A sewage treatment plant at Channel Island Power Station and the introduction of solar panels covering the staff carpark at Owen Springs Power Station
- completion of an employee engagement survey, with an overall engagement rate of 69 per cent
- introduction of block scheduling of mandatory training to maximise participation and completion of the MyHub incident management and training management system
- implementation of a significant health and wellbeing program for employees.

# WHERE WE OPERATE

## TERRITORY GENERATION IS THE LARGEST ELECTRICITY PRODUCER IN THE NORTHERN TERRITORY. 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 Power Purchase Agreements from the Landfill Management Services facility at Shoal Bay.

Territory Generation boasts decades of operational experience in some of Australia's most remote and isolated regions. Electricity for Alice Springs is produced at Territory Generation's Ron Goodin and Owen Springs power stations.

Territory Generation 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 Power Purchase Agreement from Epuron in Alice Springs, plus 1MW from the Landfill Management Services facility at Shoal Bay.

| | ENGINE | TOTAL CAPACITY (MW) | DESCRIPTION |
|---|---|---|---|
| **DARWIN/KATHERINE REGION** | | | |
| **Channel Island** | 8 turbine sets (gas or diesel) and 1 heat recovery steam turbine | 310 | Channel Island Power Station is the largest power station in the Northern Territory and the main source of electricity for the Darwin/Katherine Interconnected system. The first units were commissioned at Channel Island in 1986, and it now has 310MW of installed capacity. Channel Island Power Station is a natural gas-fired station, with diesel fuel back-up capability. |
| **Weddell** | 3 turbine sets (gas) | 129 | The Weddell Power Station connects to the Darwin/Katherine grid and consists of two open cycle gas turbines commissioned in 2008, with a third commissioned in 2014. |
| **Katherine** | 4 turbine sets (gas or diesel) | 36.5 | The Katherine Power Station has been operational since 1987. The station contains four open cycle gas turbines. |
| **ALICE SPRINGS REGION** | | | |
| **Ron Goodin** | 8 reciprocating sets (2 diesel only, 6 gas or diesel) and 1 turbine (gas or diesel) | 44.1 | The Ron Goodin Power Station was commissioned in 1973 and remains a source of electricity for the Alice Springs area. |
| **Owen Springs** | 3 reciprocating sets (gas or diesel) and 1 turbine (gas or diesel) | 37 | The Owen Springs Power Station uses the latest dual fuel reciprocating technology. With the majority of the capacity commissioned in 2011, Owen Springs Power Station services the Alice Springs community. |
| **TENNANT CREEK REGION** | | | |
| **Tennant Creek** | 11 reciprocating sets (5 gas, 6 diesel) and 1 turbine (gas or diesel) | 19.8 | The Tennant Creek Power Station services the Tennant Creek township, and surrounding communities as far as Ali Curung. |
| **YULARA/KINGS CANYON REGIONS** | | | |
| **Yulara** | 10 reciprocating sets (4 gas, 5 diesel, and 1 gas or diesel) | 11 | The Yulara Power Station services the Ayers Rock Resort and the Yulara township. |
| **Kings Canyon** | 3 reciprocating sets (diesel), 1 solar set | 1.2 | The Kings Canyon Power Station is the only commercial source of electricity in the Kings Canyon area, servicing the Kings Canyon Resort and domestic customers. |

# OUR STRATEGIC INTENT

## TERRITORY GENERATION RECOGNISES THE SIGNIFICANT ROLE THAT SOLAR AND OTHER RENEWABLE ENERGY SOURCES WILL PLAY IN THE NORTHERN TERRITORY'S ENERGY GENERATION FUTURE.

The expected increase in the uptake in rooftop and large-scale solar has been enabled by a locally and nationally supportive policy landscape that includes a Northern Territory target of 50 per cent renewables by 2030.

This transition requires support of ancillary services to ensure reliability and stability of this system, and this will be a defining role for the business.

Territory Generation recognises that the uptake in solar power will reduce costs for consumers but ultimately lead to higher costs for thermal generators.

The business's focus is on ensuring the reliability of power systems while keeping the costs of transition as low as possible. It will also aim to be a trusted adviser to government on all matters within the industry.

However, Territory Generation is operating on significantly higher energy production costs per megawatt compared to solar, especially taking government subsidies into consideration, and has high fixed costs that must be recovered from a declining demand base.

Thermal power remains a significant business. This is considering a model of solar being the primary supply when available (approximately six hours per day in sunshine) and thermal power providing ancillary services to provide reliability and stability to the system and energy supply when solar power is not available.

For the model to work, ancillary services must be priced correctly.

A review of ancillary support services and charges will address this and is expected to be finalised by the end of 2018.

Territory Generation has realigned its price model to focus on reliability rather than cost-recovery through the current period of transition to solar. Ultimately this minimises disruption to customers but means a reduction in return.

The transition to solar has also meant that predicting demand has become more challenging. Fuel (gas and diesel) remains the highest cost for the business, accounting for more than 50 per cent of operating costs. To ensure security of generation, Territory Generation requires certainty over the availability of both gas and transportation.

Through this transition, Territory Generation will focus on reliability but be conscious of the impacts on the Territory economy, the government budget and costs to customers. It will also look for business opportunities in thermal generation to spread fixed costs over higher revenue to increase the return for government.

# KEY PERFORMANCE INDICATORS

THERE ARE SIX KEY RESULT AREAS (KRAs) THAT DEFINE THE VISION AND PROVIDE OBJECTIVES TO ACHIEVE WITHIN THE FIRST FIVE YEARS, BEING SAFETY, FINANCE, CUSTOMERS, SUSTAINABILITY, INTERNAL PROCESSES AND PEOPLE AND CULTURE.

| KRAs | KPI MEASURE | TARGET | ACTUAL |
|---|---|---|---|
| SAFETY | Safety Cultural Survey results (Incorporated into Employee Engagement Survey) | 70% | 69% |
| | Lost Time Injuries | 0 | 1 |
| | Hazard and Near Miss reporting | 10% increase | 35% |
| FINANCE | Profitability | 10.9% | (51.1%) |
| | Return on Assets | 6.1% | (30.2%) |
| | Return on Equity | 7.4% | (74.0%) |
| CUSTOMER | Renegotiate bilateral retail contracts | 4 | 4 |
| SUSTAINABILITY | $tCO_2$ – equivalent emissions per annum (trend decreasing) | 2016–17 1,019,111 | 2017–18 990,186 |
| INTERNAL PROCESSES | Operating expenditure as a % of total revenue (excluding energy) | 12.5% | 13.8% |
| | Operating expenditure per MWh generated (excluding energy) | $18 | $22 |
| PEOPLE AND CULTURE | Employee engagement survey results (Incorporated into Safety Cultural Survey) | 70% | 69% |

Due to a change in corporate strategy half way through the financial year the following actions and resulting KPI measures were not undertaken: total revenue from new sources; customer satisfaction survey; trend benchmarked products/services prices; number of new products and services; number of new customers; benchmark diversity against markets in which we operate.

In addition, Territory Generation has responsibilities as the generator of last resort in the Northern Territory, which adds significant capital and operational costs to the business. These responsibilities include carrying spinning reserve, as well as the provision of the full range of ancillary services together with the provision of sufficient redundant capacity in all markets to ensure security of continuous operation of the electricity system.

All of this carries with it risk due to the current volatile nature of the electricity industry, the significant operational change being undertaken and the size of the Northern Territory market.

# MAJOR PROJECTS

## TERRITORY GENERATION'S $101 MILLION MAJOR CAPITAL WORKS 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 Territory Generation ensure it can continue to meet future electricity demand reliably and efficiently.

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 will be rehabilitated and handed back to the Northern Territory Government.

Expansion of the Owen Springs Power Station involves installation of ten 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 Tenant Creek is expected to be online in late 2018.

Territory Generation's new energy team is also focused on developing power supply opportunities and continuing to investigate and implement new technologies to enhance operational efficiencies.

# BATTERY ENERGY STORAGE SYSTEM PROJECT

## TERRITORY GENERATION RECOGNISES THE INCREASING IMPORTANCE OF SOLAR POWER ACROSS THE NORTHERN TERRITORY AND PARTICULARLY IN CENTRAL AUSTRALIA, WHERE SOLAR POWER UPTAKE IS HIGH.

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

Territory Generation has invested in leading-edge technology to support the transition to a renewable energy future in Alice Springs, with the implementation of an $8.3 million battery energy storage system.

The 5MW battery will provide a near-instantaneous response to variation in solar load, particularly during cloud cover, and will improve power generation reliability for the region by helping to smooth the output of solar power.

General Manager Rebecca Mills said the system allows a flexible approach to ensuring system stability and reliability of service to the grid.

“Territory Generation has an ongoing focus on how these types of technologies can support intermittent generation such as solar on the grid, providing a much more efficient energy and generation dispatch from gas generation – this reflects a trend in power generation not only from around Australia but around the world”.

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

The battery underwent off grid testing and online commissioning in the first half of 2018 and is expected to be online by the end of 2018. The project remains on budget and the cost of the battery system is expected to be recouped within four to five years due to efficiencies and savings.

# REMOTE OPERATIONS CENTRE

## TERRITORY GENERATION'S NEW $9 MILLION REMOTE OPERATIONS CENTRE (ROC) IS NOW LIVE ACROSS THE MAJORITY OF OPERATIONAL SITES.

Located within Territory Generation's Corporate Head Office at Berrimah, the ROC provides accurate, real-time control of generation assets from Darwin to Alice Springs and will enable significant operational and commercial efficiencies across the business.

The ROC went live on 20 September 2017 with successful remote control of Owen Springs Power Station in Alice Springs. The project has achieved practical completion of over 70 per cent of operational sites, with the new Owen Springs Power Station (Stage 2) and the expanded Tennant Creek Power Station to come online by early 2019.

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.

The ROC has been physically structured around operational and commercial teams working side-by-side to achieve the most efficient and economic outcomes for power generation. It allows for the optimum outcome at any given moment based on real-time fuel and plant availability.

The access to consistent and accurate data will be provided across operational sites through the roll-out of Plant Information Display Systems. This will enable shared understanding over the operation of the generation fleet to ensure the lowest cost of energy generation is achieved.

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

The supporting high-speed data network is operational to all sites providing high capacity reliable communication to all sites, not only for the ROC but for wider business applications, including video conferencing and CCTV.

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.

| ONLINE OPERATIONS | REMAINING OPERATIONS |
|---|---|
| > Owen Springs Power Station (existing) | > Owen Springs Power Station (Stage 2) |
| > Ron Goodin Power Station (to be decomissioned) | > Tennant Creek Power Station (expanded) |
| > Katherine Power Station | |
| > Yulara Power Station | |
| > Weddell Power Station | |
| > Channel Island Power Station | |
| > Kings Canyon Power Station | |

# PEOPLE AND DIVERSITY

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

At 30 June 2018, Territory Generation had 212 full-time equivalent employees, compared with 243 at the same time in 2017.

This decrease in resource numbers is due to the completion of projects, management of short term contracts and natural attrition, and it is anticipated that workforce numbers will continue to reduce over time.

### EMPLOYEE ENGAGEMENT SURVEY

Territory Generation conducted a three-week online Employee Engagement Survey in November and December 2017.

The survey was underpinned by an engagement framework which measures three key areas; emotional engagement (job satisfaction, pride), cognitive engagement (enthusiasm, commitment, resilience) and behavioural engagement (exerting discretionary effort, willingness to share knowledge).

The survey results were positive for Territory Generation with engagement remaining stable, especially considering the level of change experienced by the business over the past 18 months.

| **Overall response rate** |
|---|
| 68% (168 of 246 employees responded) |

| **Overall engagement** |
|---|
| 69%, decrease of 2% from 2015 |

### ENTERPRISE AGREEMENT

Territory Generation commenced negotiations for a new Enterprise Agreement in April 2018. The parties to the bargaining are the Electrical Trades Union, Professionals Australia and the Community and Public Sector Union, the Australian Manufacturing Workers Union and the Commissioner for Public Employment as the employer and lead negotiator.

A collaborative negotiation approach is creating positive discussions, and the three key objectives of Territory Generation for the process are:

- to comply with Northern Territory public sector wages policy and *Fair Work Act*
- to facilitate achievement of mutually acceptable outcomes by taking into consideration the needs of employees and other stakeholders, as well as overarching organisational goals
- to ensure that relationships with stakeholders are maintained or strengthened.

### TRAINING AND DEVELOPMENT

Territory Generation is committed to growing its people and providing development and career opportunities. In the past year over $1.3 million has been invested in training and upskilling employees.

The operator/maintainer model has been successfully implemented across the majority of operating sites and has seen a merging of skills and development and career opportunities for employees filling the new roles. Significant work has been done to identify gaps in skill levels and develop appropriate training plans, along with job model assessment guides and the supporting framework of documents.

Block scheduling for mandatory training has been implemented across all sites to ensure employees are provided with the knowledge and tools to carry out their work safely. This has enabled a more controlled approach through the implementation of a 12-month, site-wide training calendar. Block training has seen an increase in attendance and participation to safety related training courses, and has provided a more cost-effective way to deliver this training.

This has been supported by the implementation of the MyHub training management system, which was rolled out across the business on 29 January 2018. Work continues on the system to ensure it is an effective system that meets Territory Generation's needs.

Territory Generation's Leadership Development Program strengthens the capabilities of leaders to build a positive culture through effective leadership. For the past year the program focused on developing supervisors and managers through an externally-provided coaching program. The coaching program is relationship focused and provides a tailored approached to maximise development outcomes.

### HEALTH AND WELLBEING

Territory Generation recognises the significant role health and wellbeing plays in the lives of its employees and has introduced a number of prevention-focused initiatives to ensure its people can be healthy and happy at work and at home.

In the past year employees took their commitment to health and wellbeing beyond the workplace by participating in programs such as the Heart Foundation Touch for Heart and Volleyball for Heart competitions, the 10,000 Step Challenge, the Butterfly Foundation Golf Day and the Make-A-Wish soccer competition.

## RECOGNITION OF LONG SERVICE

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

Supply Chain Manager Jenette Bailey retired in May 2018 after 23 years of service. Jenette commenced in the finance team of Power and Water Authority based in Alice Springs before transferring to Darwin in 2005 with Power and Water and transitioning to Territory Generation.

Robert Ross also retired in May 2018 after a service of 41 years, four months and two days. Robert commenced his apprenticeship under the Commonwealth Government gaining experience at Stokes Hill and Ben Hammond complexes. Robert then spent 30 years at System Control with Power and Water Authority/ Corporation and later moved into the roles of Production Manager and Acting General Manager Generation.

Robert was instrumental in the separation from Power and Water Corporation as the Acting Chief Executive Officer of Territory Generation until handing over to current Chief Executive Officer Tim Duignan. Robert has since held positions across the organisation as Acting Chief Operations Officer, General Manager Business Services, Regional Manager North and General Manager People and Safety.

Chief Executive Officer Tim Duignan thanked Jenette and Robert for their outstanding contribution to the industry and wished them all the best for retirement.

“I would like to acknowledge not only Jenette and Robert’s length of service, but the wealth of knowledge, skills and experience that they have provided to Territory Generation and individually their significant commitment to the Northern Territory power generation industry.”

## EARLY CAREERS

Territory Generation’s Early Careers Program is designed to ensure young Territorians have entry level pathways into the workforce.

The Graduate Development Program is part of this and includes a target of two intakes per year, with a focus on diversity background candidates. Graduates’ ongoing professional development is supported.

In 2017, Territory Generation partnered with Engineers Australia to deliver two diversity scholarships for female and Aboriginal and Torres Strait Islander engineering students studying at Charles Darwin University. The scholarships provide both financial support and valuable work experience opportunities.

## DIVERSITY

Territory Generation is committed to encouraging diversity in the workplace, particularly in non-traditional roles.

Territory Generation implemented a Diversity Policy and supporting Diversity Strategy in January 2016. The focus of the strategy is increasing the representation of Aboriginal and Torres Strait Islanders and women in non-traditional roles.

A Diversity and Inclusion Day was held across all sites in May 2018 to celebrate and recognise diversity in the business and provided an opportunity for deeper understanding of the value of cultural and gender diversity in the workforce.

Territory Generation’s Women Leaders Forum provides sustainable pathways and opportunities, including mentoring and support, for current and future women leaders in the business. For the business it provides opportunities to integrate diversity into leadership and decision making.

A key initiative of the Women Leaders Forum is the external promotion of diversity to encourage and promote opportunities for women in non-traditional roles. In 2017–18 this included partnering with local schools and universities and sponsorship and representation at the Northern Territory Careers Expo and NT Training Awards.

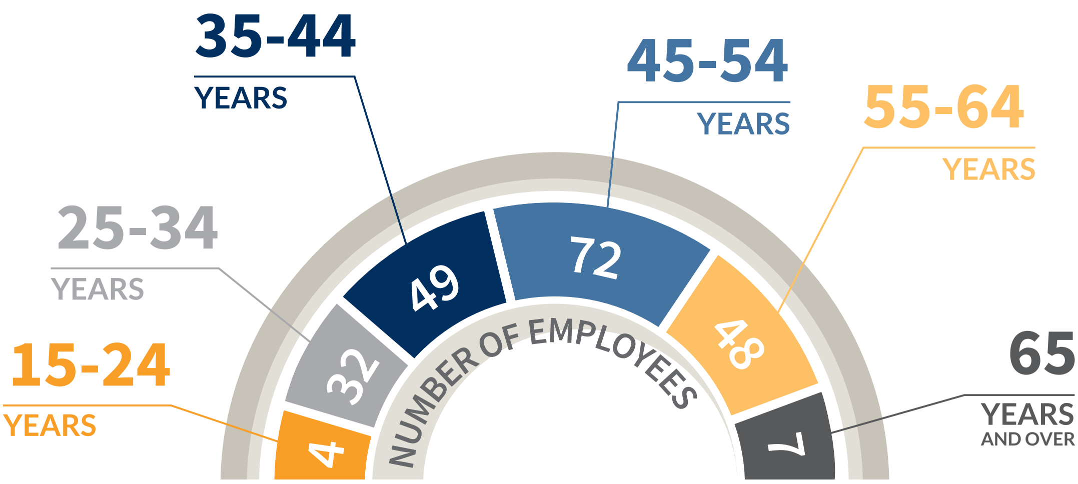
During 2017–18, Territory Generation strengthened its Emerging Women Leaders Forum initiative as a mentoring pathway to its Women Leaders Forum. This included the graduation of one woman from an apprenticeship, the intake of one other female apprentice and the engagement of a female graduate engineer.

Other initiatives of the Women Leaders Forum in 2017–18 included:

- speech masters sessions held at Corporate Headquarters and Channel Island Power Station
- development of Women Leaders library
- a guest speaker program
- inclusion in the Chief Ministers Women Leaders Network.

Territory Generation was proud to be a finalist in the Women in Resources, Excellence in Diversity Programs and Performance Awards in 2017.

## WORKFORCE DIVERSITY PROFILE




| Equal opportunities | Number of employees |
|---|---|
| Aboriginal and Torres Strait Islander | 1 |
| Non-English speaking background | 21 |
| Aboriginal and Torres Strait Islander apprentices | 2 |



# SAFETY

## SAFETY IS ALWAYS THE NUMBER ONE PRIORITY AT TERRITORY GENERATION, AND THE SAFETY NON-NEGOTIABLES UNDERPIN THE HEALTH AND WELLBEING OF TERRITORY GENERATION'S PEOPLE.

Territory Generation's commitment to safety across every part of its business was demonstrated through the achievement of a record 1,030 days without a Lost Time Injury at the Channel Island and Weddell Power Stations, and one Lost Time Injury across all sites in 2017–18.

This is not only a demonstration of an embedded safety culture, but the fruition of a number of initiatives such as the continued establishment of safety interactions and safety-focused leadership and development training. This reinforces that safety comes first and employees are empowered to continually improve and contribute to a safer workplace.

| | 2016–17 | 2017–18 |
|---|---|---|
| **Lost Time Injuries (LTI)** | 1 | 1 |
| **Lost Time Injury Frequency Rate** | 2.1 | 2.1 |

Safety interactions are about meaningful discussions that build a positive reporting culture focused on learning and improvement. The initiative is now well embedded across the business and empowers anyone at any time to have a conversation about safety.

Territory Generation's Leadership Development program has included a coaching component with a strong safety focus. Based on the safety non-negotiables, the training enables leaders to be accountable for both managing risk and outcomes with regards to safety and sets the standard for what it takes to be a good safety leader at Territory Generation.

The Safe Systems of Work program has been successfully implemented in the northern region and will be rolled out to the southern region by the end of 2018. Safe Systems of Work involves an integrated approach to core elements of safety management and reflects recommendations made as part of a comprehensive review of safety processes across the business. The implementation has been consultative, and employees have contributed their own initiatives to create a tailored management approach that is fit for purpose and engenders a sense of ownership at all levels of the business.

Health and Safety Committees and Representatives have also contributed to a sense of ownership and shared dialogue about safety across the business. The North, South and Berrimah Committees meet regularly to represent and consult the wider workforce and bring recommended actions to the Health, Safety, Environment and Sustainability Committee.

Other initiatives from 2017–18 include:

- introduction of the MyHub Incident Management System
- a chemical audit conducted across all sites by occupational hygienists
- use of the Incident Cause Analysis Method (ICAM) for all investigations
- three-year arc flash program
- training to support the operator/maintainer model has meant operators have a more holistic understanding of plant operations, contributing to better safety outcomes.

### SAFETY NON-NEGOTIABLES

Territory Generation is committed to ensuring the health and safety of all employees, contractors and visitors. We expect everyone working and visiting our sites to personally enforce our commitment to stop any work they believe to be unsafe.

If you see anything you think might be unsafe, approach the workers involved and ask to speak to the Supervisor in charge about the activity being undertaken. You have the authority to request that work stop while this occurs.

# OPERATIONAL PERFORMANCE AND RELIABILITY

## 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 2018, Territory Generation's power assets include eight power generation facilities and 55 generating units.

When the new generation units at Owen Springs are online the Ron Goodin Power Station will go into standby for six months and then be decommissioned.

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

In the 12 months to 30 June 2018, Territory Generation's combined output from gas, diesel and solar facilities was 1,680 Gigawatt hours (GWh) of electricity.

This compares with 1,975 GWh produced in 2016–17. The decrease is due in part to the fact that no power was purchased from the Energy Development Limited owned Pine Creek Power Station in the reporting period.

### 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 2017–18 year 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 1,030 days as at 30 June 2018.

Enabling technology has been key to supporting grid stability. The roll-out of Plant Information Displays Systems connected to the new Remote Operations Centre has enabled greater visibility of efficiencies from the generation fleet with the aim of providing the lowest cost of energy generation while maximising reliability.

The transition from an Asset Manager model to a Station Manager model has also contributed to optimisation of plant and assets. Local ownership, especially at smaller sites, and teamwork, as well as significant investment in training and development, have been key to this success.

Station Managers now have high visibility over financial management for each station, representing a cultural shift toward local ownership and accountability. This has been supported by the application of Lean Project Management principles to day-to-day station management.

Reduced capital budgets combined with a focus on implementing major projects have constrained operational performance, and reliability has been a challenge particularly in the Alice Springs region during the transition from Ron Goodin Power Station to Owen Springs Power Station.

The transition to Owen Springs Power Station will be complete in late 2018 and the team effort in maintaining reliability while supporting a smooth transition has been exemplary.

Channel Island Power Station has been the centre of coordinated outage campaigns, including a node swap, to improve the reliability and efficiency of the network. This has significantly improved the way outages are managed and executed in the northern region.

### ASSET MANAGEMENT

Territory Generation's Strategic Asset Management Plan (SAMP) generates a risk based "heat map" showing areas of focus for setting maintenance priorities. In the coming year, the plan will be updated with a view to how the asset portfolio will strategically change with an increasing renewable energy mix.

The business is moving into a more strategic phase of asset management and the Asset Management team is working closely with operational sites to reduce maintenance costs and define risks while ensuring reliability.

### OPERATOR MAINTAINER MODEL

The operator maintainer model has been in place at small Territory Generation stations for some time, and has now been implemented across most operating sites. The model provides a full career path from apprenticeship to a generation controller, manager or planner role.

Operator/maintainers now have the opportunity to learn and grow across a variety of technical or operational management careers, and this has been supported by an investment in a significant training and development framework.

The model also supports continual professional development. An example of this is the encouragement of dual trades, such as mechanical and electrical, to provide flexibility in resourcing.

# SUSTAINABILITY

"TERRITORY GENERATION IS DELIVERING THE FUTURE OF ENERGY IN THE NORTHERN TERRITORY BY INTEGRATING THE LATEST NEW POWER GENERATION TECHNOLOGIES WITH SUSTAINABLE BUSINESS PRACTICES, WHILE ENSURING RELIABLE, AFFORDABLE AND SUSTAINABLE POWER SUPPLY."

**– TIM DUIGNAN, CHIEF EXECUTIVE OFFICER**

Territory Generation has embraced sustainability as a key principle of business operations.

The United Nations 2030 Agenda for Sustainable Development consists of 17 Sustainable Development Goals, which Territory Generation is using as a framework to focus its sustainability objectives and actions. A Sustainability Committee has been set up to facilitate the commissioning of a Sustainability Report and Territory Generation has developed a Sustainability Mind Map addressing the 17 Sustainable Development Goals.

Some of the sustainable initiatives that Territory Generation has implemented over the past year include:

- the 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
- conversion of fluorescent lighting to LED technologies at various sites.

Territory Generation also achieves its initiatives through ongoing recycling programs, projects to reduce water and chemical usage, improvements to efficiencies and the implementation of new technologies. Reductions in both environmental emissions and energy consumption will be achieved by improved maintenance routines, 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.

## ENVIRONMENT

Territory Generation places high priority on protecting the environment and minimising operational impacts. Accredited systems, policies and procedures provide a clear framework for achieving best practice in environmental performance at both a business and individual level.

A business goal is to minimise 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 Channel Island Power Station. 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.

## NATIONAL GREENHOUSE AND ENERGY REPORTING

Natural gas is the primary fuel used by Territory Generation to operate power stations to generate electricity.

Territory Generation's sites transport, store and use diesel fuel for 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.

## WEED MANAGEMENT

Territory Generation undertakes regular weed management activities at its sites. Management activities include control and mapping of weeds and removal of weeds using approved weed control practices.

## 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. An asbestos register is maintained for all Territory Generation sites, in line with Commonwealth legislation.

# RISK AND GOVERNANCE

## DURING 2017–18 TERRITORY GENERATION CONTINUED THE PROCESS OF CONSOLIDATING INTERNAL CAPABILITIES IN ORDER TO FUNCTION EFFECTIVELY AS A STANDALONE BUSINESS.

In December 2017, a new Board was appointed for Territory Generation with emphasis on a new strategic direction, aligning with the Northern Territory Government's renewable energy strategy.

### GOVERNANCE AND OPERATING STRUCTURE

Territory Generation is a government-owned corporation established to undertake commercial activities in the 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 is issued by the Utilities Commission. Territory Generation was incorporated to operate at least as efficiently as any comparable business and to maximise sustainable financial returns to the Northern Territory Government.

Territory Generation has a shareholding Minister and a portfolio Minister. The Honourable Nicole Manison MLA, the Treasurer, is the shareholding Minister and the Honourable Dale Wakefield 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 was presented and approved by the Northern Territory Government.

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.

### MANAGING RISK

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.

Territory Generation achieves strategic business objectives, reduces organisational risks and ensures compliance with legal and regulatory obligations through comprehensive risk review, risk identification and the Risk 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 and ensures effective internal and external audit functions and communication between the Board and the external and internal auditors.

During 2017–18 Territory Generation rolled out the new Incident Management System across all sites. The system provides a streamlined process for reporting of incidents that affects safety, the environment, Territory Generation finances, legal and regulatory compliance, stakeholders and personnel.

A new document management policy and procedure was put in place across the organisation. This new policy and procedure provides for clear direction on document control and process that aligns to relevant document control standards.

# FINANCIAL PERFORMANCE

## IN A YEAR OF SIGNIFICANT CHANGE TERRITORY GENERATION HAS FOCUSED ON THE INVESTMENT IN FOUNDATION SYSTEMS, MAJOR PROJECTS AND WORKFORCE TRANSFORMATION TRAINING.

Overall profit declined in 2017–18 compared with previous years as Territory Generation recognised a significant asset impairment of $143.9 million (2017: impairment expense $0.0 million), reduced electricity demand, increasing input costs and additional system support requirements. Furthermore, resources were directed towards major projects and information technology upgrades.

For the 12 months ended 30 June 2018, total revenue from electricity sales was $272.6 million, compared with $294.8 million the previous year. The principal operating costs for Territory Generation relate to the purchase of fuel (gas and diesel), water and other supplies required for operation of generation assets. During 2017–18 Territory Generation's cost of energy was $231.4 million compared to $259.9 million in 2016–17. The reduction in both revenue and costs from the previous year was primarily due to the loss of the Pine Creek Power Purchase Agreement and a reduction in demand.

The significant capital expenditure to construct new generation assets and replace ageing plant, to implement cutting edge information technology infrastructure, and to adopt new battery technology designed to assist with continued strong adoption of solar power continued during 2017–18 as these projects near completion. Capital expenditure during the 12 months to 30 June 2018 was $28.5 million compared to $83.6 million in 2016–17.

Territory Generation's single shareholder is the Northern Territory Government. 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 consideration financial performance, capital structure, capital investment commitments and capacity to pay in accordance with prudent financial management. For the 12 months to 30 June 2018, no dividend will be paid by Territory Generation to the Northern Territory Government (2016–17: $0.0 million).

POWER GENERATION CORPORATION

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

# 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 2018 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 financial year and up to the date of this report, unless otherwise stated:

Mr Richard Galton, Non-executive Director – Appointed 22 December 2017

Ms Christine Charles, Non-executive Director – Appointed 22 December 2017

Mr Dennis Bree, (Chair) Non-executive Director – Appointed 22 December 2017

Mr David De Silva, (Chair) Non-executive Director – Resigned 22 December 2017

Ms Leeanne Bond, Non-executive Director – Resigned 22 December 2017

Mr Jon Hubbard, Non-executive Director – Resigned 22 December 2017

Mr John Tourish, Non-executive Director – Resigned 22 December 2017

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:

| | BOARD | | AUDIT & RISK COMMITTEE | | PEOPLE & SAFETY COMMITTEE | |
|---|---|---|---|---|---|---|
| MEETING ATTENDANCE | HELD | ATTENDED | HELD | ATTENDED | HELD | ATTENDED |
| D De Silva | 5 | 5 | 3 | 3 | 1 | 0 |
| L Bond | 5 | 5 | 3 | 2 | 3 | 3 |
| J Hubbard | 5 | 5 | 3 | 3 | 3 | 3 |
| J Tourish | 5 | 5 | 3 | 3 | 3 | 3 |
| R Galton | 6 | 6 | 2 | 2 | 2 | 2 |
| C Charles | 6 | 6 | 2 | 2 | 2 | 2 |
| D Bree | 6 | 6 | 2 | 2 | 2 | 2 |

## PRINCIPAL ACTIVITIES

The principal activities of the Corporation are to safely, efficiently and reliably generate electricity and to provide system stability and associated services including generation of last resort through a period of transition to 50 per cent renewable energy.

## REVIEW OF OPERATIONS

The Corporation recorded a Net Loss After Tax of $121.3 million (2017: Net Loss After Tax $0.6 million). During the financial year, the Corporation invested $28.6 million (2017: $83.6 million) in its capital investment program.

Overall profit declined compared with previous years due to the recognition of a significant asset impairment, a combination of reduced electricity demand, increasing input costs and additional system support 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 these 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 year.

## GOING CONCERN

The policy environment supports and possibly accelerates the expected increase in penetration of solar power through the government's target of 50 per cent renewable by 2030.

Territory Generation's role through this transition will be to play a key role in ensuring the reliability of the power systems while keeping the costs of transition as low as possible. It will also look for business opportunities in thermal generation that spread our fixed costs over higher revenue thus increasing the return for government.

The Corporation recorded a Net Loss After Tax of $121.3 million (2017: Net Loss After Tax $0.6 million).

The net loss after tax for the current financial year is primarily due to an impairment expense of $143.9 million (2017: Impairment expense $0.0 million).

The Corporation is forecast to return to profits in 2019–20 as reported in the 2018–19 Statement of Corporate Intent (SCI).

## DIVIDENDS

The Corporation did not pay any dividends during the 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 2018 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.

## 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 Northern Territory Government (NT Government) has committed to adopt a target of 50 per cent renewable energy by 2030. Following the publication of the NT Government's "Roadmap to Renewables Report" in September 2017 the Corporation will no longer have a major role in solar power generation. In this regard it is a departure from previous years.

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 due for completion during the coming financial year. These projects are:

- *Owen Springs Power Station Expansion*
  $75 million to install 10 x 4.1MW gas spark engines, and associated equipment including an additional transformer at the Owen Springs substation.
- *Tennant Creek Power Station Upgrade*
  $26 million to install 3 x 2MW gas spark engines and 1 x 1.5MW 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. The continued uptake of rooftop and commercial solar may impact the Corporation in future financial years by reducing demand.

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 NT 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 of the Corporation or the Board of the Corporation pursuant to the Deed of Indemnity executed by the NT 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:

- 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 27th day of September 2018.

**Mr Dennis Bree**
Director and Chair

# 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:

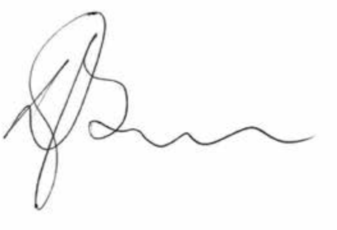
- (i) giving a true and fair view of the financial position of the Corporation as at 30 June 2018 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards.

(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 27th day of September 2018.



**Mr Dennis Bree**
Director and Chair

# INDEPENDENT AUDIT OPINION

## POWER GENERATION CORPORATION
INDEPENDENT AUDIT OPINION

**Auditor-General**

**Independent Auditor's Report to the Board of Directors**

**Power Generation Corporation**

**Page 1 of 4**

### Opinion

I have audited the financial report of Power Generation Corporation (the Corporation), which comprises the statement of financial position as at 30 June 2018, 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, 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 2018 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.

### Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

| Key Audit Matter | Audit scope response to the Key Audit Matter |
|---|---|
| ***Carrying value of property, plant and equipment and calculation of impairment*** | |
| Property, plant and equipment totalling \$286.068 million, as disclosed in Note 10 to the financial statements, represents a significant balance.<br><br>An asset impairment of \$143.920 million disclosed in the statement of profit or loss and other comprehensive income represents a significant balance. | My audit procedures included but were not limited to:<br>▪ obtaining an understanding of the key controls associated with the preparation of the valuation models used to assess the recoverable amount of the assets within each cash generating unit;<br>▪ assessing the consistency of the forecast cash flow to the Board approved five year financial plan documented within the latest Statement of Corporate Intent; |

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155 Fax: 08 8999 7144

# INDEPENDENT AUDIT OPINION

## POWER GENERATION CORPORATION
INDEPENDENT AUDIT OPINION

**Auditor-General**

**Page 2 of 4**

| Key Audit Matter | Audit scope response to the Key Audit Matter |
|---|---|
| Significant management judgement is applied in determining the value in use of property, plant and equipment and any related impairment adjustment attributable to each cash generating unit.<br><br>The valuation of property, plant and equipment is a key audit matter due to the complexity in the evaluation of the recoverable amount of the assets which requires significant judgement in determining the key assumptions supporting the expected future cash flows of the Corporation, the utilisation of the relevant assets and the useful lives of property, plant and equipment.<br><br>The utilisation and useful life of each asset can change significantly as a result of technical innovations or other events. | ▪ checking, on a sample basis, the mathematical accuracy of the cash flow forecast and impairment model and the appropriateness of the inclusion of the specific cash flows in accordance with the Accounting Standards;<br><br>▪ performing sensitivity analyses to stress test the key assumptions used in the valuation model around key drivers such as growth rates and discount rates and considering the impact on the recoverable amount from changes in these key assumptions;<br><br>▪ assessing the useful lives of assets as determined by management;<br><br>▪ assessing the qualifications and independence of the specialists appointed by the Corporation to undertake the Weighted Average Cost of Capital calculation; and<br><br>▪ assessing the Corporation's framework for determining the recoverable amount relevant to each cash generating unit. |
| ***Estimation and valuation of decommissioning provision*** | |
| The provision associated with the Ron Goodin Power Station decommissioning of $6.663 million, as disclosed in Note 15 to the financial statements, represents a significant balance.<br><br>The estimation of future decommissioning costs requires significant judgement as decommissioning is an evolving activity and there is limited historical precedent against which to benchmark estimated future costs. | My audit procedures included but were not limited to:<br><br>▪ assessing the annual review and confirmation of the estimated costs of decommissioning determined by the Corporation's contractor engaged for the project;<br><br>▪ assessing the consistency in the application of the current year's principles and assumptions to the prior year and to the Corporation's accounting policy, as described in Note 1(q) to the financial statements; and<br><br>▪ checking the mathematical accuracy of the provision calculation and the correct treatment of the movement in the Corporation's books. |
| ***Recoverability of deferred tax assets*** | |
| The deferred tax asset of $47.698 million, as disclosed at Note 11 to the financial statements, represents a significant balance in the Corporation's financial statements. Recognition of the deferred tax asset is influenced by management's assessment of the ability of the Corporation to realise the asset. | My procedures included but were not limited to:<br><br>• re-performing the testing on the recoverability of the deferred tax assets and ascertaining that the Corporation's recognition of deferred tax asset attributable to impairment losses is reasonable. |

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155 Fax: 08 8999 7144

# INDEPENDENT AUDIT OPINION

## POWER GENERATION CORPORATION
INDEPENDENT AUDIT OPINION

**Auditor-General**

**Page 3 of 4**

| Key Audit Matter | Audit scope response to the Key Audit Matter |
|---|---|
| ***Unbilled revenue estimate at year end*** | |
| Unbilled revenue of $19.269 million, as disclosed in Note 7 to the financial statements, represents an estimate of the value of electricity generated and sent out however not billed as at 30 June 2018. Management's estimate is based upon information provided by the market operator. | My procedures included but were not limited to:<br>▪ recalculating the unbilled revenue based on the preliminary settlement statements obtained from the market operator;<br>▪ checking the final settlement obtained from the market operator against the preliminary settlement at year end;<br>▪ checking the reconciliation between the information provided by the market operator and the Supervisory control and data acquisition (SCADA) readings; and<br>▪ performing a trend analysis of the unbilled revenue. |

### 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 2018, 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.

### 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.

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# INDEPENDENT AUDIT OPINION

## POWER GENERATION CORPORATION
INDEPENDENT AUDIT OPINION

**Auditor-General**

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### 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 directors' 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.
- 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.

Julie Crisp
Auditor-General for the Northern Territory

Darwin, Northern Territory

27 September 2018

Level 12 Northern Territory House 22 Mitchell Street Darwin 0800 Tel: 08 8999 7155 Fax: 08 8999 7144

# 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 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Revenue | 3 | 272,554 | 294,823 |
| Cost of energy | | 231,379 | 259,884 |
| **Gross profit** | | **41,175** | **34,939** |
| | | | |
| Other income | 3 | 327 | 5,299 |
| Administrative expenses | | 31,932 | 29,175 |
| Other expenses | | 5,559 | 3,185 |
| Impairment | | 143,920 | - |
| Finance costs | | 8,870 | 8,422 |
| **Profit/(loss) before income tax** | **4** | **(148,779)** | **(544)** |
| Income tax expense/(benefit) | 5 | (27,502) | 10 |
| **Profit/(loss) for the year** | | **(121,277)** | **(554)** |
| | | | |
| **Other comprehensive income** | | | |
| Other comprehensive income (net of tax) | | - | - |
| **Total other comprehensive income for the year** | | **-** | **-** |
| | | | |
| **Total comprehensive income/(loss) for the year** | | **(121,277)** | **(554)** |

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 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 10,440 | 23,740 |
| Trade and other receivables | 7 | 27,211 | 36,349 |
| Inventories | 8 | 26,193 | 23,721 |
| Current tax receivable | 13 | 1,238 | - |
| Other current assets | 9 | 882 | 661 |
| **Total current assets** | | **65,964** | **84,471** |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 285,378 | 423,449 |
| Intangible assets | 10 | 690 | 1,430 |
| Deferred tax asset | 11 | 47,704 | 20,660 |
| **Total non-current assets** | | **333,772** | **445,539** |
| | | | |
| **Total assets** | | **399,736** | **530,010** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 27,803 | 35,994 |
| Deferred income | 18 | 3,333 | 1,667 |
| Taxes payable | 13 | - | 1,660 |
| Employee provisions | 14 | 10,582 | 8,812 |
| Borrowings | 17 | - | 47,000 |
| **Total current liabilities** | | **41,718** | **95,133** |
| | | | |
| **Non-current liabilities** | | | |
| Employee provisions | 14 | 1,462 | 1,747 |
| Other provisions | 15 | 6,663 | 6,663 |
| Deferred tax liability | 16 | 6 | 637 |
| Deferred income | 18 | 46,667 | 48,333 |
| Borrowings | 17 | 200,000 | 153,000 |
| **Total non-current liabilities** | | **254,798** | **210,380** |
| | | | |
| **Total liabilities** | | **296,516** | **305,513** |
| | | | |
| **Net assets** | | **103,220** | **224,497** |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 20 | 198,593 | 198,593 |
| Reserves | 21 | 107 | 107 |
| Retained earnings/(deficit) | 22 | (95,480) | 25,797 |
| **Total equity** | | **103,220** | **224,497** |

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 2018

| | Note | Contributed Equity $'000 | Revaluation reserve $'000 | Retained Earnings $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2017 | 20 | 198,593 | 107 | 25,797 | 224,497 |
| Loss for the year | | - | - | (121,277) | (121,277) |
| Other comprehensive income (net of tax) | | - | - | - | - |
| Total comprehensive income for the year | | - | - | (121,277) | (121,277) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity | | - | - | - | - |
| Asset revaluation | | - | - | - | - |
| Dividend paid or provided | | - | - | - | - |
| **Balance at 30 June 2018** | **20** | **198,593** | **107** | **(95,480)** | **103,220** |
| | | | | | |
| Balance at 30 June 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) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity | | 15,000 | - | - | 15,000 |
| Asset revaluation | | - | 107 | - | 107 |
| Dividend paid or provided | | - | - | (8,357) | (8,357) |
| **Balance at 30 June 2017** | **20** | **198,593** | **107** | **25,797** | **224,497** |

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 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 276,774 | 299,495 |
| Grant received | | - | - |
| Interest received | | 235 | 760 |
| Payments to suppliers and employees | | (246,530) | (268,899) |
| Interest paid | | (8,870) | (8,422) |
| Income taxes paid | | 2,651 | (23,776) |
| **Net cash flows from/(used in) operating activities** | **23** | **24,260** | **(842)** |
| | | | |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (37,560) | (80,927) |
| Payments for intangibles | | - | - |
| **Net cash flows used in investing activities** | | **(37,560)** | **(80,927)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | | - | (8,357) |
| Equity received | | - | 15,000 |
| Borrowings received | | - | 20,000 |
| **Net cash flows (used in) / from financing activities** | | **-** | **26,643** |
| | | | |
| **Net increase (decrease) in cash and cash equivalents** | | **(13,300)** | **(55,126)** |
| Cash and cash equivalents at the beginning of the period | | 23,740 | 78,866 |
| **Cash and cash equivalents at the end of the period** | **6** | **10,440** | **23,740** |

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 2018

## 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 27 September 2018.

### 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 assessing 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, and the distinction between operating and finance leases is removed. Under the new standard, an 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 affect primarily the accounting for the Corporation's operating leases. As at the reporting date the Corporation has non-cancellable operating lease commitments of $3.9 million, see recognition Note 25. However the Corporation has not yet determined to what extent these commitments will result in the recognition of assets and labilities 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. There is not expected to be a material impact upon adoption of this standard.

***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. There is not expected to be a material impact upon adoption of this standard.

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

***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.

## POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

### (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 the 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.

***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 NT 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*.

***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

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

- it is expected to be realised within 12 months after the reporting period
- 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
- 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.

### (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 present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria is met. Refer to significant accounting judgements, estimates and assumptions (Note 2) and other provisions (Note 15) for further information about the recognised decommissioning provision.

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.

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

Assets depreciated using the time basis are:

| Asset Class | Effective Life |
|---|---|
| Buildings | 10 to 40 years |
| Plant and equipment | 2 to 40 years |
| Intangibles | 2 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
- 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 reserve 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.

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.

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

### (m) Impairment of non-financial assets

At each reporting date, the Corporation reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs). For Territory Generation each region is not connected and therefore meets the criterion to be identified as a separate CGU.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The value-in-use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate specific to the asset or CGU to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill (if applicable), and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation of amortisation, if no impairment loss had been recognised.

### (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.

***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

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
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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.

### (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 per cent of the 30 June post tax surplus.

The Corporation's owner, the Northern Territory Government, have advised to adopt a 'dividend holiday', that is assuming the declaration of Nil dividends until 30 June 2022 to build a sustainable cash balance.

### (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, relation 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.

### (y) Going concern

The policy environment supports and possibly accelerates the expected increase in penetration of solar power through the government's target of 50 per cent renewable by 2030.

Territory Generation's role through this transition will be to play a key role in ensuring the reliability of the power systems while keeping the costs of transition as low as possible. It will also look for business opportunities in thermal generation

# POWER GENERATION CORPORATION
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that spread our fixed costs over higher revenue thus increasing the return for government.

Accordingly, the financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

## 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.

***Impairment loss***

Wholeale prices approved by the shareholding Minister triggered the impairment of assets for the 2017–18 financial year.

The Corporation has recognised the loss based on an assessment of the recoverable amount of its assets. Determining the recoverable amount requires estimates of future cash flows, discount rates and other internal and external factors.

Other key assumptions used in the calculation of impairments:

- inflation was calculated using CPI rates as per the 2018–19 SCI.
- a growth rate of -0.67% until 2022 where a zero rate was used.
- market share for each region is detailed in the 2018–19 SCI and has been assumed based on publicly available information.

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **3. REVENUE** | | |
| **Sales revenue** | | |
| Electricity sales | 272,554 | 294,612 |
| Gas sales | - | 211 |
| | **272,554** | **294,823** |
| | | |
| **Other income** | | |
| Other income | **92** | **222** |
| Warranty claim | - | 4,317 |
| Interest income | 235 | 760 |
| | **327** | **5,299** |
| | | |
| 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 | 15,211 | 13,047 |
| Depreciation and amortisation | 820 | 630 |
| Other administrative costs | 15,900 | 15,498 |
| **Total administrative expenses** | **31,931** | **29,175** |
| | | |
| **(b) Depreciation and amortisation** | | |
| *Included in cost of energy:* | | |
| Property, plant and equipment | 22,279 | 24,671 |
| Intangible assets | 241 | 263 |
| **Total depreciation and amortisation** | **22,520** | **24,934** |
| | | |
| *Not included in cost of energy:* | | |
| Property, plant and equipment | 404 | 176 |
| Intangible assets | 416 | 454 |
| **Total depreciation and amortisation** | **820** | **630** |
| | | |
| **(c) Impairment of assets** | | |
| Impairment of assets | 143,920 | - |
| **Total impairment of assets** | **143,920** | **-** |
| | | |
| **(d) Finance costs** | | |
| Interest and finance charges | 8,870 | 8,422 |
| **Total finance costs** | **8,870** | **8,422** |
| | | |
| **(e) Employee benefits expense** | | |
| * Employee benefits expense | 37,642 | 33,899 |
| **Total employee benefits expense** | **37,642** | **33,899** |

* 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 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **5. INCOME TAX EQUIVALENT EXPENSE** | | |
| **(a) Income tax expense** | | |
| Current tax | 172 | 1,662 |
| Adjustment recognised for prior periods | | |
| | | |
| **Deferred income tax** | | |
| Movement in deferred tax assets | (27,044) | (818) |
| Movement in deferred tax liabilities | (630) | (834) |
| **Total deferred tax expense/(benefit)** | **(27,674)** | **(1,652)** |
| | | |
| **Income tax expense/(benefit)** | **(27,502)** | **10** |
| | | |
| **(b) Reconciliation of income tax expense to prima facie tax payable** | | |
| Net profit/(loss) before tax | (148,779) | (544) |
| | | |
| Tax benefit at the statutory income tax rate of 30% | (44,634) | (163) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income | 17,132 | 173 |
| Other Adjustments | - | - |
| Adjustment recognised for prior periods | - | - |
| Current equivalent tax expense | **(27,502)** | **10** |
| | | |
| **6. CASH AND CASH EQUIVALENTS** | | |
| Cash at bank | 10,440 | 23,740 |
| **Cash and cash equivalents** | **10,440** | **23,740** |

A $20 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 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **7. TRADE AND OTHER RECEIVABLES** | | |
| Trade receivables | 6,169 | 10,142 |
| Less: impairment of receivables | - | - |
| | **6,169** | **10,142** |
| | | |
| *Other receivables* | | |
| Unbilled generation | 19,269 | 17,932 |
| Interest receivable | 21 | 44 |
| Other receivables | 1,752 | 8,231 |
| **Total current receivables** | **27,211** | **36,349** |
| | | |
| **Impairment of receivables** | | |
| No trade receivables are past due or are considered to require impairment. | | |
| | | |
| **8. INVENTORIES** | | |
| Stores and spares | 26,198 | 23,236 |
| Less: Provision for obsolescence | (2,598) | (2,123) |
| | **23,600** | **21,113** |
| Fuel stocks | 2,593 | 2,608 |
| **Total inventories** | **26,193** | **23,721** |
| | | |
| **Movement in the provision for obsolescence:** | | |
| Opening provision for obsolescence | 2,123 | 2,053 |
| Additional provisions recognised during the period | 475 | 70 |
| **Closing provision for obsolescence** | **2,598** | **2,123** |
| | | |
| **9. OTHER CURRENT ASSETS** | | |
| Prepayments | 882 | 661 |
| **Total other current assets** | **882** | **661** |

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 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **10. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES** | | |
| **(a) Summary** | | |
| **Property, plant and equipment** | | |
| Land at cost | 1,219 | 1,219 |
| Land at valuation | 107 | 107 |
| | **1,326** | **1,326** |
| | | |
| Buildings | 47,456 | 46,967 |
| Less: Accumulated depreciation and impairment | (17,135) | (7,023) |
| | **30,321** | **39,944** |
| | | |
| Plant and equipment | 346,389 | 327,722 |
| Less: Accumulated depreciation and impairment | (165,217) | (65,825) |
| | **181,172** | **261,897** |
| | | |
| Assets under construction – net of accumulated impairment of $55,956 (2017:$0) | 72,559 | 120,282 |
| | | |
| **Total property, plant and equipment** | **285,378** | **423,449** |
| | | |
| **Intangibles** | | |
| Software | 3,363 | 3,363 |
| Less: Accumulated amortisation | (2,673) | (1,933) |
| **Total intangibles** | **690** | **1,430** |
| | | |
| **Total property, plant and equipment and intangibles** | **286,068** | **424,879** |

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

| | Land and Buildings $'000 | Plant and Equipment $'000 | Intangibles $'000 | Assets under Construction $'000 | Total $'000 |
|---|---|---|---|---|---|
| **(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 30 June 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** |
| | | | | | |
| Opening balance at 1 July 2017 | 48,293 | 327,722 | 3,363 | 120,282 | 499,660 |
| Additions | - | - | - | 28,542 | 28,542 |
| Capitalisation | 489 | 19,820 | - | (20,309) | - |
| Revaluation | - | - | - | - | - |
| Impairment of assets (Note 4c) | - | - | - | (55,956) | (55,956) |
| Disposals | - | (1,153) | - | - | (1,153) |
| **Closing balance at 30 June 2018** | **48,782** | **346,389** | **3,363** | **72,559** | **471,093** |
| | | | | | |
| **Accumulated depreciation and impairment** | | | | | |
| Opening balance at 30 June 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)** |
| | | | | | |
| Opening balance at 1 July 2017 | (7,023) | (65,825) | (1,933) | - | (74,781) |
| Depreciation expense (Note 4b) | (2,284) | (20,339) | (717) | - | (23,340) |
| Impairment of assets (Note 4c) | (7,828) | (80,113) | (23) | - | (87,964) |
| Disposals | - | 1,060 | - | - | 1,060 |
| **Closing balance at 30 June 2018** | **(17,135)** | **(165,217)** | **(2,673)** | **-** | **(185,025)** |
| | | | | | |
| **Carrying amounts** | | | | | |
| At 30 June 2017 | 41,270 | 261,897 | 1,430 | 120,282 | 424,879 |
| **At 30 June 2018** | **31,647** | **181,172** | **690** | **72,559** | **286,068** |

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

### Impairment loss

Based on the above, an impairment loss of $143.9 million (2017: $0 million) was recognised as the carrying amounts of the assets exceeded their recoverable amounts.

Impairment losses were applied to the assets on a pro-rata basis in the following regions:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Darwin/Katherine Region | 45,403 | 0 |
| Alice Springs Region | 78,913 | 0 |
| Tennant Creek Region | 18,735 | 0 |
| Yulara Region | 526 | 0 |
| Kings Canyon Region | 343 | 0 |
| **Total** | **143,920** | **0** |

In determining the value in use for each cash generating unit, post tax cashflows were discounted at a rate of 6.16 per cent on a post tax basis.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **11. DEFERRED TAX ASSET** | | |
| *Deferred tax asset comprises temporary differences attributable to:* | | |
| | | |
| **Amounts recognised in profit and loss:** | | |
| Employee provisions | 2,975 | 3,024 |
| Other provisions | 1,999 | 1,999 |
| Obsolete stock provision | 780 | 637 |
| Deferred grant income | 15,000 | 15,000 |
| Property, plant and equipment | 26,950 | - |
| Allowance for doubtful debts | - | - |
| Tax losses carried forward | - | - |
| Impairment of other non-current assets | - | - |
| **Deferred tax asset** | **47,704** | **20,660** |
| | | |
| *Movements:* | | |
| Opening deferred tax asset | 20,660 | 19,842 |
| Movement from deferred tax liability | (630) | - |
| Credited/(charged) to profit or loss | 27,674 | 818 |
| **Closing deferred tax asset** | **47,704** | **20,660** |
| | | |
| Deferred tax liability – refer Note 16 | 6 | 637 |
| | | |
| **Net deferred tax assets** | **47,698** | **20,023** |

### Unrecognised deferred tax assets

Deferred tax assets of $16.79 million (2017:Nil) have not been recognised in respect of the impairment of assets under construction as it is not probable that future taxable profit will be available against which the Corporation can use the benefits from.

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **12. TRADE AND OTHER PAYABLES** | | |
| **Current** | | |
| Trade creditors | 10,651 | 3,588 |
| Other creditors and accruals | 6,290 | 19,521 |
| Energy accruals | 10,862 | 12,885 |
| **Total payables** | **27,803** | **35,994** |

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.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **13. INCOME TAXES (RECEIVABLE)/PAYABLE** | | |
| Provision for income tax | (1,238) | 1,660 |
| **Taxes (receivable)/payable** | **(1,238)** | **1,660** |
| | | |
| **14. EMPLOYEE PROVISIONS** | | |
| **Current** | | |
| Employee benefits | 10,582 | 8,812 |
| | **10,582** | **8,812** |
| | | |
| **Non-current** | | |
| Employee benefits | 1,462 | 1,747 |
| | **1,462** | **1,747** |

Employee benefits include amounts for recreation leave, long service leave and related on costs. It is expected that recreation leave earned should be settled within 12 months.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **15. OTHER PROVISIONS** | | |
| Decommissioning | | |
| Opening decommissioning provision | 6,663 | 5,000 |
| Provisions made during the year | - | 1,663 |
| **Closing decommissioning provision** | **6,663** | **6,663** |

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 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **16. DEFERRED TAX LIABILITY** | | |
| *Deferred tax liability comprises temporary differences attributable to:* | | |
| **Amounts recognised in profit or loss:** | | |
| Property, plant and equipment | - | 623 |
| Interest | 6 | 14 |
| Prepayments | - | - |
| **Deferred tax liability** | **6** | **637** |
| | | |
| *Movements:* | | |
| Opening deferred tax liability | 637 | 1,470 |
| Movement to deferred tax liability | (631) | (833) |
| **Closing deferred tax liability** | **6** | **637** |
| | | |
| **17. BORROWINGS** | | |
| Current | | |
| Northern Territory Government loans – unsecured | - | 47,000 |
| | **-** | **47,000** |
| | | |
| Non Current | | |
| Northern Territory Government loans – unsecured | 200,000 | 153,000 |
| | **200,000** | **153,000** |
| Refer to Note 1 Note 1(o) Borrowings, Note 24(f) Interest rate risk and Note 24(h) Liquidity risk. | | |
| | | |
| **18. DEFERRED INCOME** | | |
| | | |
| Current | 3,333 | 1,667 |
| Non-current | 46,667 | 48,333 |
| | **50,000** | **50,000** |

The Corporation received a $50 million capital grant toward the construction of Alice Springs and Tennant Creek Power Stations in 2016–17. The construction is expected to be completed in 2018–19. Refer to Note 1(d).

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **19. ISSUED CAPITAL** | | |
| **Share capital** | | |
| 1 Share | - | - |
| **Total share capital** | **-** | **-** |
| Refer to Note 1(t) issued capital. | | |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **20. CONTRIBUTED EQUITY** | | |
| Contributed equity at beginning of the year | 198,593 | 183,593 |
| Contributed equity during the year | - | 15,000 |
| **Contributed equity at end of the year** | **198,593** | **198,593** |

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 in the 2016–17 financial year to recontribute the tax payable on the capital grant received.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **21. RESERVES** | | |
| Balance at beginning of the year | 107 | - |
| Movement for the year | - | 107 |
| **Balance at end of the year** | **107** | **107** |

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.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **22. RETAINED EARNINGS/(DEFICIT)** | | |
| Retained earnings at beginning of the year | 25,797 | 34,708 |
| Total comprehensive income (loss) for the year | (121,277) | (554) |
| Dividends paid | - | (8,357) |
| **Retained earnings/(deficit) at end of the year** | **(95,480)** | **25,797** |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **23. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES** | | |
| Profit/(loss) after income tax expense for the year | (121,277) | (554) |
| | | |
| *Adjustments for:* | | |
| Depreciation and amortisation | 23,340 | 25,564 |
| Net loss on disposal of non-current assets | 201 | 45 |
| Impairment of assets | 143,920 | - |
| | | |
| *Changes in assets and liabilities:* | | |
| Trade, other receivables and other current assets | 8,826 | (2,442) |
| Inventories | (2,472) | (1,913) |
| Trade and other payables | 2,833 | 2,202 |
| Energy accruals | (2,023) | (1,045) |
| Provisions | 1,485 | 1,067 |
| Deferred income | - | - |
| Taxation liabilities | (30,573) | (23,766) |
| **Net cash flows (used in)/from operating activities** | **24,260** | **(842)** |

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

## 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.

The main purpose of these financial instruments is to raise finance for the Corporation's operations. The Corporation has various other financial instruments such as trade receivables and trade payables. It is the Corporation's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Corporation's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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.

### (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 $0.1 million.

***Foreign currency contracts – cash flow hedges***

In order to protect against exchange rate movements and to manage the cost of construction, the Corporation at times enters into forward exchange contracts to purchase US Dollars. These contracts hedge highly probable forecast payments timed to mature, including rollover strategy, when payments are scheduled to be made.

At the reporting date, there are no current hedging contracts.

### (e) Price risk

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

### (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:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Fixed Rate Loans $'000 | Average Interest Rate % | Fixed Rate Loans $'000 | Average Interest Rate % |
| **Remaining loan term** | | | | |
| 0 - 1 year | - | | 47,000 | 5.16 |
| 1 to 2 years | 29,000 | 5.20 | - | |
| 2 to 5 years | 171,000 | 4.28 | 153,000 | 4.48 |
| Over 5 years | - | | - | |
| | **200,000** | **4.41** | **200,000** | **4.71** |

***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 $'000** | | | | |
| 30 Jun 2018 | (2,000) | 2,000 | (1,400) | 1,400 |
| 30 Jun 2017 | (2,000) | 2,000 | (1,400) | 1,400 |

## (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 2018 owed the Corporation $5.8 million (95 per cent of trade receivables). This balance was within the terms of the wholesale electricity sales agreement and no impairment was made as at 30 June 2018. 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.

Subject to borrowings being refinanced on maturity, the Corporation's existing cash resources including a $20 million overdraft, and trade receivables 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 2017–18 | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 |
|---|---|---|---|---|
| *Non-interest bearing* | | | | |
| Trade and other payables | 27,803 | - | - | - |
| Taxes payable | - | - | - | - |
| | | | | |
| *Interest bearing – fixed rate* | | | | |
| Loans from | | | | |
| Northern Territory Treasury Corporation | - | 29,000 | 171,000 | - |
| **Total** | **27,803** | **29,000** | **171,000** | **-** |

| Non-derivatives 2016–17 | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 |
|---|---|---|---|---|
| *Non-interest bearing* | | | | |
| Trade and other payables | 35,994 | - | - | - |
| Taxes payable | 1,660 | - | - | - |
| | | | | |
| *Interest bearing – fixed rate* | | | | |
| Loans from | | | | |
| Northern Territory Treasury Corporation | 47,000 | - | 153,000 | - |
| **Total** | **84,654** | **-** | **153,000** | **-** |

### (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 provide benefits for stakeholders.

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 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **25. COMMITMENTS** | | |
| Committed at the reporting date but not recognised as liabilities payable: | | |
| | | |
| *Capital commitments – payable:* | | |
| Within one year | 16,872 | 25,573 |
| One to five years | - | 8,928 |
| More than five years | - | - |
| | **16,872** | **34,501** |

Major projects include:

- 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.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| *Operating lease commitments – payable:* | | |
| Within one year | 1,473 | 1,690 |
| One to five years | 2,343 | 3,176 |
| More than five years | 55 | 34 |
| | **3,871** | **4,900** |
| | | |
| **26. AUDITOR'S REMUNERATION** | | |
| | | |
| Audit services: | | |
| Auditors of the Corporation – NT Auditor-General | 43 | 82 |
| | **43** | **82** |

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

### 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:

| Non-executive directors | | Fees $ | Superannuation $ | Total $ |
|---|---|---|---|---|
| Mr David De Silva** | 2018 | 60,184 | 5,717 | 65,901 |
| | 2017 | 94,277 | 8,956 | 103,233 |
| Ms Leeanne Bond** | 2018 | 44,363 | 4,214 | 48,577 |
| | 2017 | 76,896 | 7,305 | 84,201 |
| Mr Jon Hubbard ** | 2018 | 32,656 | 3,262 | 35,918 |
| | 2017 | 59,513 | 5,654 | 65,167 |
| Mr John Tourish** | 2018 | 34,335 | 3,262 | 37,597 |
| | 2017 | 52,437 | 5,904 | 58,341 |
| Mr Richard Galton* | 2018 | 37,799 | 2,201 | 40,000 |
| | 2017 | - | - | - |
| Ms Christine Charles* | 2018 | 31,039 | 2,949 | 33,988 |
| | 2017 | - | - | - |
| Mr Dennis Bree* | 2018 | 49,171 | 4,671 | 53,842 |
| | 2017 | - | - | - |
| **Total non-executive directors** | **2018** | **289,547** | **26,276** | **315,823** |
| | **2017** | **283,123** | **27,819** | **310,942** |

** Resigned 22 December 2017.

*Appointed 22 December 2017.

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:

| | | 2018 $ | 2017 $ |
|---|---|---|---|
| (i) | Short-term employee benefits | 1,745,248 | 1,844,150 |
| (ii) | Post-employment benefits | 114,465 | 149,286 |
| (iii) | Long-term benefits | 125,707 | 97,517 |
| | Termination benefits | 356,853 | - |
| | **Total compensation of key management personnel** | **2,342,273** | **2,090,953** |

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 restructured the Executive Leadership Team. In addition termination benefits were paid and provided for two key management personnel during the financial year.

# POWER GENERATION CORPORATION
## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2018

(i) Short-term employee benefits refer to salary and wages and annual leave paid during the financial year.

(ii) Post-employment benefits refer to superannuation contributions made during the financial year.

(iii) Long-term benefits refer to long service leave paid during the financial year.

**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

There has been no item, transaction or event of a material and unusual nature which has arisen since 30 June 2018 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.

## 30. RELATED PARTY INFORMATION

The parent entity of the Corporation is the Northern Territory Government, which at 30 June 2018 owned 100 per cent (2017:100 per cent) 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 $'000 | Purchases from related parties $'000 | Amounts owed by related parties $'000 | Amounts owed to related parties $'000 |
|---|---|---|---|---|---|
| The parent entity including all entities that are associated with the parent entity | 2017 | 296,631 | 192,878 | 25,915 | 210,390 |
| | 2018 | 270,847 | 167,456 | 23,946 | 210,395 |

As at 30 June 2018 related party transactions of the Corporation included:

- services provided by Power and Water Corporation under the ICT Service Level Agreement
- supply of gas from Power and Water Corporation
- 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
- provision of wholesale electricity and associated services to Power & Water Corporation.

# GLOSSARY

| | |
|---|---|
| AASB | Australian Accounting Standards Board |
| BESS | Battery Energy Storage System |
| CCTV | Closed Circuit Television |
| CGUS | Cash Generating Units |
| CO2 | Carbon dioxide |
| CPI | Consumer Price Index |
| GOC | Government Owned Corporation |
| GST | Goods & Services Tax |
| GWh | Gigawatt-hour |
| ICAM | Incident Cause Analysis Method |
| KPI | Key Performance Indicator |
| KPS | Katherine Power Station |
| KRA | Key Result Area |
| LED | Light-emitting diode |
| LMS | LMS Landfill Management Services Pty Ltd (Shoal Bay) |
| LNG | Liquefied Natural Gas |
| M | Million |
| MW | Megawatt |
| MWh | Megawatt-hour |
| NGER | National Greenhouse and Energy Reporting |
| NPAT | Net Profit After Tax |
| NT | Northern Territory |
| NTEM | Northern Territory Electricity Market |
| NTER | National Tax Equivalent Regime |
| OMT | Operator Maintainer Technician |
| PGC Act | Power Generation Corporation Act 2014 |
| PPA | Power Purchase Agreement |
| PWC | Power and Water Corporation |
| ROC | Remote Operations Centre |
| SAMP | Strategic Asset Management Plan |
| SCI | Statement of Corporate Intent |
| TGen | Territory Generation |
| WHS | Workplace Health and Safety |

## CONTACT US


08 7979 2500

territorygeneration.com.au

Building 3 Level 2, 631 Stuart Highway
Berrimah NT 0828

PO Box 1721
Berrimah NT 0828



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