PUBLIC VERSION

2023-24

STATEMENT OF CORPORATE INTENT

TERRITORY GENERATION

About the Statement of Corporate Intent

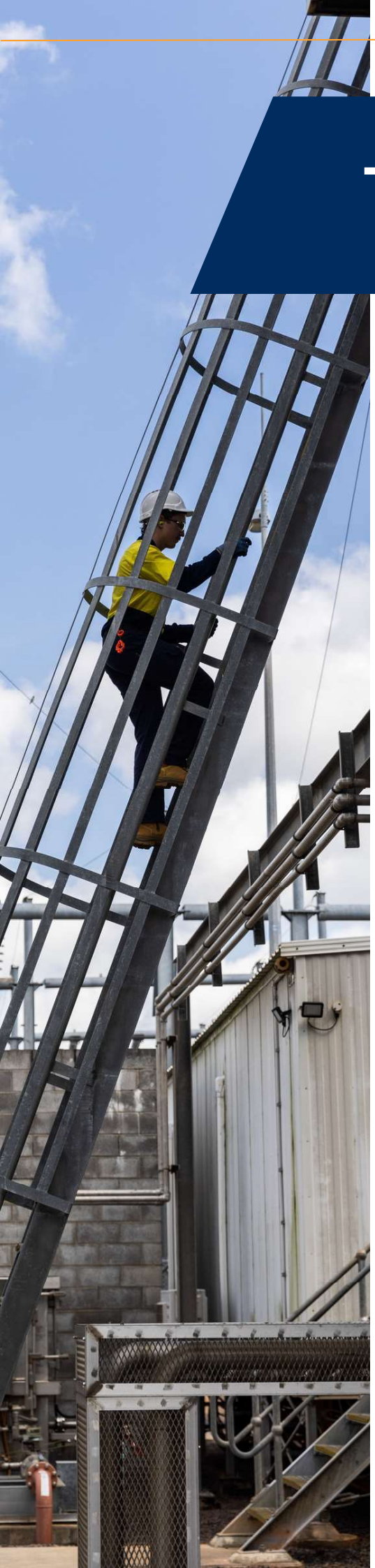
Power Generation Corporation trading as Territory Generation (TGen) was established on 29 May 2014 under the *Power Generation Corporation Act 2014*.

TGen's 2023-24 Statement of Corporate Intent (SCI), represents the formal agreement between TGen and its shareholding Minister.

The SCI outlines TGen's expected level of performance for each financial year as formed by its Strategic Plan, budgeting process and risk assessments.

As required by section 40 of the *Government Owned Corporations Act 2001* (the *Act*), the SCI includes the following information about TGen:

- our objectives
- our business
- material risks faced by TGen and mitigation strategies
- financial performance improvement strategies
- capital program as approved by the shareholding Minister
- financial targets and other performance measures
- our finances and the accounting policies to be applied
- other matters that may be agreed on by the shareholding Minister and Board



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Introduction

TGen delivered a dividend for financial year 2021-22 and is on target to do the same for 2022-23. We operate in a dynamic business environment driven by the Northern Territory Government policy of achieving 50% renewables by 2030 and net zero by 2050.

Currently solar power generation, utility scale and behind-the-meter (BTM), combined with storage solutions are the main technology pathway towards the renewable targets. Our challenge, and the challenge of all industry participants, is to manage an effective transition by ensuring system reliability and controlling costs.

The continued uptake of renewables is an essential step in the transition to 50% renewables by 2030, although it further increases system stability challenges

The introduction of renewable energy and smaller hybrid fuel machines that allow more overall efficient generation has been incorporated in the dispatch modelling for future years.

TGen's renewable power purchase agreements, Fleet Transition Plan and Sustaining Capital Program aim to increase renewables while enhancing our fleet's flexibility, efficiency, and reliability as well as the contribution of renewable generation in our portfolio.

TGen is the supplier of system services and has a load following contract with customers, making us the default generator of last resort. As the transition to renewables progresses, it is essential that TGen secures sufficient, dependable capacity, energy, and service capabilities to ensure system security while keeping costs low. This role provides certainty to the NT Government, and the people of the Territory that sufficient installed capacity exists.

In the Darwin-Katherine region, TGen is commencing the procurement process for a second large scale battery. This project is critical to delivering essential system services in the future and supporting further renewables growth.

Generally, TGen is expecting energy demand within each power system to be in line with the Utilities Commission Electricity Outlook Report, being sustaining or modest growth.

Vision and purpose

TGen has a Vision, Purpose and Values statements that guide our Strategic Objectives.

Vision

To be the Northern Territory's trusted and respected energy services business.

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

- running our business safely is recognised as our highest priority
- we are known for being reliable, available and responsible
- we support the Northern Territory Government's renewables energy policy
- we are recognised for technical excellence for energy services in the Territory
- we focus on our cost drivers to be cost effective
- we are an employer of choice.

Purpose

We safely, reliably, and responsibly provide:

- electricity on sustainable terms
- essential system services which support system reliability
- generator of last resort.

Values

We have developed a set of values that underpin the way we work with each other and the way we conduct our business.

F	I	R	S	T
Focus: We focus our efforts on delivering a safe, reliable and cost efficient operation we are all proud to be part of.	**Integrity:** We are open and honest with our words and action: "to do and say the right thing"	**Respect:** We show respect for our teammates, the environment, and the communities in which we work.	**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. Safety is not negotiable.	**Teamwork:** We are one team with aligned goals working together to achieve Territory Generation's vision.

Our objectives

TGen has developed a set of Strategic Objectives. The measures of performance in achieving these objectives are set out in Section 8.

Safety

We have an embedded safety culture, where safety is at the core of everything we do.

People and capability

To be an employer of choice and our people live our values.

Plant operations

We operate our plant safely, reliably, and responsibly every day.

Finance

We achieve our agreed controllable SCI outcomes.

Sustainability

We ensure sustainability by effectively managing our environmental, social and governance responsibilities.

Stakeholders and customers

We are a trusted supplier supporting the transition to renewables.

Our business

TGen is the largest electricity producer in the Northern Territory, owning ~603MW of installed generation capacity and contracting an additional 5.1 MW from independent power producers. We produce electricity using gas, diesel, and solar technologies to power the Territory's major population centres.

In the northern region, the Darwin-Katherine interconnected system includes the Channel Island, Weddell and Katherine power stations.

In the southern region, TGen owns and operates the Ron Goodin, Owen Springs, Tennant Creek, Yulara and Kings Canyon power stations, and the Sadadeen battery energy storage system.

We provide two primary products and a range of essential system services:

Primary products

All licenced generators have obligations regarding the provision of these products.

Energy: The provision of energy in the form of megawatt hours (MWh) 'sent out' from power stations required to meet retailers' customer loads.

Capacity (to supply peak load): Maintaining sufficient generation capacity so that the peak demand can be supplied when it occurs.

Essential system services

TGen currently provides Essential System Services as part of a bundled wholesale electricity price and ancillary services charged to other generators. Essential System Services, as defined in the Review of Essential System Services Draft Position Paper January 2021, include the following:

Essential system service	Purpose
Rate of Change of Frequency (RoCoF) Control	• Control maximum RoCoF on power systems. • Ensure system security for credible contingency events and 'protected events'.
Contingency frequency control (raise)	• Stabilise frequency within 'emergency' defined operating band after a credible contingency resulting in the net disconnection of generation. • Ensure system security without Under Frequency Load Shedding for all credible contingency events.
Contingency frequency control (lower)	• Stabilise frequency within 'emergency' defined operating band after a credible contingency resulting in the net disconnection of load. • Ensure system security without over frequency generator tripping for all credible contingency events.
Regulating frequency control	• Regulate power system frequency within normal defined frequency operating band.
Voltage management / network support	• Management of network voltage control issues where required. • Management of network capacity shortfall issues where required.
System restart	• Enable the restart of the regulated power systems from a 'black system' event.
System strength	• Sufficient system strength capability to ensure voltage stability and sufficient fault current.
Additional services	• Services necessary to address a system security issue that cannot be managed through the planning timescales, as approved by the Utilities Commission.

The further development of the Northern Territory Electricity Market (NTEM) may impact the categorisation and pricing for these services. The above will be refined as the market rules are defined.

Financial performance improvement strategies

TGen is addressing future operational efficiencies, principally through its asset management improvement and Fleet Transition Plan. Our revised capital program focuses on increasing renewable penetration in the power systems and transitioning our fleet to achieve this.

TGen is continually assessing the impact on our assets, and business, from increasing levels of intermittent solar photovoltaic (PV) and system support requirements. Increased cycling (starts/stops), and the fast ramp-up of machines is becoming the standard mode of operation due to impacts from the increase in distributed renewable energy resources across the Northern Territory.

We continuously monitor our operational costs to identify possible cost savings throughout the Corporation.

TGen is pursuing renewables growth opportunities within the Territory, with potential direct connected customers and grid connected proponents. These opportunities will be incorporated into financial planning when they reach maturity.

Capital program

Our Capital Program is differentiated into sustaining and new capital. Our new capital investment is transitioning the size and nature of our fleet, while our sustaining capital is targeted to efficiently extract the remaining value from our existing assets most effectively.

The new fleet will be flexible, efficient, and reliable thermal generation assets capable of consuming renewably sourced fuel, such as hydrogen, combined with renewable generation and storage assets that areneeded for the future operating state of our power systems. This investment is aimed to be completed over the next 7 years, in time for achieving 50% renewable by 2030.

For existing fleet, our capital planning targets investments to extend the life of assets while the power systems transition to 50% renewables. Condition based assessments and capacity calculations are used to inform investment decisions.

This approach provides the ability to plan the future asset requirements without over investing in replacementof gas only technology.

The procurement of the first large-scale energy storage system for the Darwin-Katherine region was successfully completed and the project is currently in the installation phase. The project aims to increase system stability, reduce gas-fired spinning reserves and emissions, and will provide a positive return over five years through reduced gas consumption. The procurement of a second large-scale energy storage system for the Darwin-Katherine region is currently underway.

Approved major capital expenditure

The following major capital expenditure has been approved by the Shareholding Minister:

Item ($M)	22-23	23-24	24-25	25-26	26-27
Total approved	36.8	4.6	0.0	0.0	0.0

Other capital expenditure

The following table summarises all other capital expenditure by value. Each project will be subjected to a business case analysis, and if above the threshold, will be submitted to the Shareholding Minister for approval:

Item ($M)	22-23	23-24	24-25	25-26	26-27
Major projects > $1M	13.0	53.3	63.2	49.5	38.5
Medium projects > = $0.25M < = $1M	3.0	4.7	5.1	2.2	0.7
Minor projects < $0.25M	1.6	0.6	1.0	0.8	0.8
Total other capital expenditure	**17.6**	**58.6**	**69.3**	**52.6**	**39.9**

Total capital expenditure

The total forecast for capital expenditure is:

Item ($M)	22-23	23-24	24-25	25-26	26-27
Total capital expenditure	**54.4**	**63.2**	**69.3**	**52.6**	**39.9**

Financial targets and other performance measures

TGen developed key performance indicators (KPIs) to define our strategic direction for the coming financial year. Our strategic direction is to operate our plant safely, reliably and responsibly every day and is aligned to driving continual improvement in all areas focused on the strategic objectives for the SCI period.

We will continue to utilise our Strategic Plan to detail each business unit's specific action plans and function. Through ongoing reviews of key lead and lag indicators, we will assess the headway achieved towards our strategic goals. From these evaluations, we will assess the effectiveness of the current action plans and make any necessary adjustments to continue the positive momentum or realign specific business units' efforts.

	KPI Measure	Target
Safety		
Objective: We have an embedded safety culture, where safety is at the core of everything we do		
	• Lead indicators with increase in reporting of hazards and incidents	Increase in reporting of hazards and incidents
	• Meet safety conversation targets	Monthly allocated targets met or exceeded
	• Lost Time Injury (LTI)	Target = 0
People and capability		
Objective: To be an employer of choice and our people live our values		
	• Employee engagement survey	Engagement survey result > 60%
	• Decrease in staff turnover	Allocated target met or exceeded
	• We will provide on average 4 training events per employee	Allocated target met or exceeded

	KPI Measure	Target
Plant operations		
Objective: We operate our plant safely, reliably and responsibly every day		
	• Plant availability across portfolio, excluding RGPS	Achieve > =88%
	• Start Reliability	Achieve > = 95% across all sites
	• Reduction in trips from load	Allocated target met or exceeded
Finance		
Objective: We achieve our agreed controllable SCI outcomes		
	• Achievement of Budgeted outcomes: EBITDA/ROA/EBIT	Achievement of Fiscal Strategy outcomes: • Debt to Equity Ratio < = Previous Year • Revenue Growth > Operating Expenditure Growth • Controllable Costs < = Previous Year • Dividends proposed
	• Capital program delivered within budget	Program completion within -5% of approved budget
	• Operating expenditure (less energy) as a percentage of total revenue	Achieve < = Budget %
	• Operating expenditure (less energy) per sent out MWh generated	Achieve < = Budget $/MWh

	KPI Measure	Target
Sustainability		
Objective: We ensure sustainability by effectively managing our environmental, social and governance performance		
	• No reportable environmental harm incidents	Target = 0
	• An ongoing overall reduction of greenhouse gas emissions	Continuous reduction on prior year emissions
	• Maintain level on the procurement of local service providers	Allocated target met or exceeded
Stakeholders and customers		
Objective: We are a trusted supplier supporting the transition to renewables		
	• Proper communication and improved relationships	Allocated target met or exceeded
	• Support NT Government renewable policy	Allocated target met or exceeded
	• Reduction in system breach notices	Allocated target met or exceeded
	• Reduction in generation Under Frequency Load Shed (UFLS)	Allocated target met or exceeded

Accounting policies

The Board of Directors is responsible to the Shareholding Minister for the financial performance of the Corporation.

The principal accounting policies adopted in preparing the financial statements are set out on pages 41-47 of the 2021-22 Annual Report. These policies have been consistently applied to all years presented unless otherwise stated.

Other matters

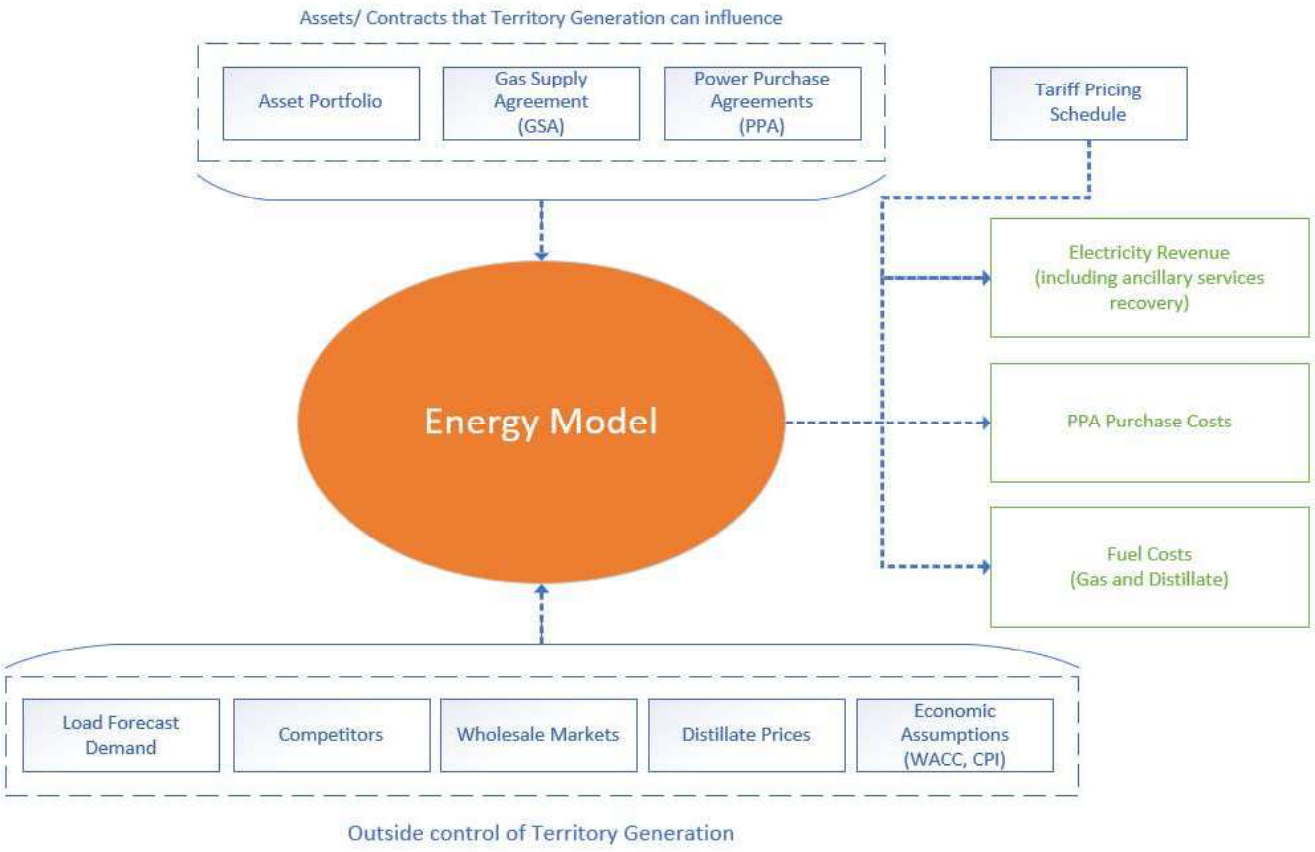
No other matters agreed on by the Board and the Shareholding Minister apply at this time.

Our finances

Methodology

As in previous years, technical and economic models have been integrated to forecast the financial outcomes for TGen over the SCI period.

The diagram below summarises the key energy revenue and cost components of the forecast and the related inputs and outputs. During 2021, we implemented a new energy modelling software, Plexos, to undertake investment analysis and SCI energy and demand modelling.



The forecast development methodology is outlined below.

- The annual forecast energy demand, includes the impact of uncontrolled rooftop solar, and is determined by region (power system).
- The required system services levels are estimated, together with known operational constraints likely to be imposed by the system controller. These are overlaid as operating parameters in the Plexos model to estimate the required system security.

- The generation output of each unit at each station is then determined to meet demand requirements, including TGen's units, electricity purchased under power purchase agreements (PPAs), and other market participants. The key inputs of this 'dispatch model' are:
  - the high-level technical characteristics of all generators on the power system, including an estimate of solar output;
  - power system constraints;
  - the fuel efficiency and variable operating cost of each unit;
  - the availability of generators;
  - the demand forecast.
- The volume of fuel (both gas and diesel) used by each power station is determined based on the amount of electricity produced and the plant's assumed thermal efficiency. The cost of fuel includes both the fuel commodity and associated transportation charges.
- Electricity sold (including production and purchases) is priced according to current and estimated pricing schedules.
- Personnel costs have been calculated with references to the organisational structure, inclusive of all allowances and on-costs.
- The repairs and maintenance and capital expenditure projects have been identified, prioritised, and reviewed in the context of the strategic direction and projected operational outcomes of the business, and incorporate the expected reallocation of internal labour costs in line with accounting standards.
- The remaining forecast operating expenditure is based on a bottom-up review of requirements taking account historical spending and the future strategic direction.
- A preliminary and conservative estimate of savings from the fleet transition has been calculated based upon the expected efficiency improvements, which is anticipated to be material to the outer years of the SCI due to timing of investment and commissioning.
- Lastly, the application of Australian taxation regulations and Australian Accounting Standards is applied to ensure regulatory compliance.

Key assumptions

The financial forecast has been based on the following key assumptions:

Underlying demand

For each of the regulated regions, TGen generally aligns with the annual underlying demand forecast provided in the latest available Electricity Outlook Report (EOR), produced annually by the Utilities Commission. For this SCI, it was the 2020-21 EOR. Where appropriate, TGen has adjusted these forecasts to reflect any new information within the market.

For the Darwin-Katherine region, population growth forecasts drive annual demand growth.

Alice Springs' demand is anticipated to increase substantially in 2023-24 when a new customer connects to the power system, with small underlying demand growth.

Tennant Creek is estimated to see a slight growth in demand based upon new developments despite an estimated minor decline in population.

The assumed annual underlying demand volumes are summarised below.

Underlying demand (MWh)	23-24	24-25	25-26	26-27
Darwin-Katherine	1,681,313	1,672,257	1,677,678	1,679,399
Alice Springs	262,336	262,441	262,686	263,010
Tennant Creek	30,493	30,527	30,534	30,555

Behind-the-meter solar

For each of the regulated regions, TGen utilises EOR forecasts for residential and commercial behind-the-meter solar capacity. The forecasts combine theoretical aggregated solar output profiles to estimate the impact on underlying demand.

Other participants

New grid-connected entrants to the NT power generation market have been flagged for some time and are expected to continue to displace TGen's market share. TGen's assumptions on commencement dates for these large scale solar farms diverges from the EOR forecasts, which are published with a 12 month lag, and are based on historical delays in commissioning and connection of these participants, and requirements for system services to support.

Name	Capacity (MW)	Technology	Developer
Darwin-Katherine			
Pine Creek Power Station	27	Combined cycle gas turbines	EDL
Hudson Creek Power Station	12	Gas reciprocating engines	Merricks Capital
Katherine Solar Power Station	25	Single axis tracking solar	Eni
Manton Solar	10	Single axis tracking solar	Eni
Batchelor Solar 1	10	Single axis tracking solar	Eni
Batchelor Solar 2	10	Single axis tracking solar	Merricks Capital
RAAF Darwin	3.2	Fixed	Assure
Robertson Barracks	10	Fixed	Assure
Alice Springs			
Uterne solar farm (PPA)	3.88	Single axis tracking solar	Epuron (TGen PPA)
Yulara			
MixedYulara solar	1.8	mixed technology solar	Epuron
Kings Canyon			
Kings Canyon Solar	0.01	Solar	

Capacity

TGen's existing plant is assumed to be maintained and operated to optimise its outputs and costs in accordance with the approved Asset Management Plan throughout the SCI period, consistent with the capital program. Notable regional strategies are listed below.

Darwin-Katherine: Sufficient capacity to supply the full system demand energy and services shall be maintained throughout the SCI period.

The fleet transition plan strategically replaces existing assets with modern, more flexible hybrid fuel capable assets.

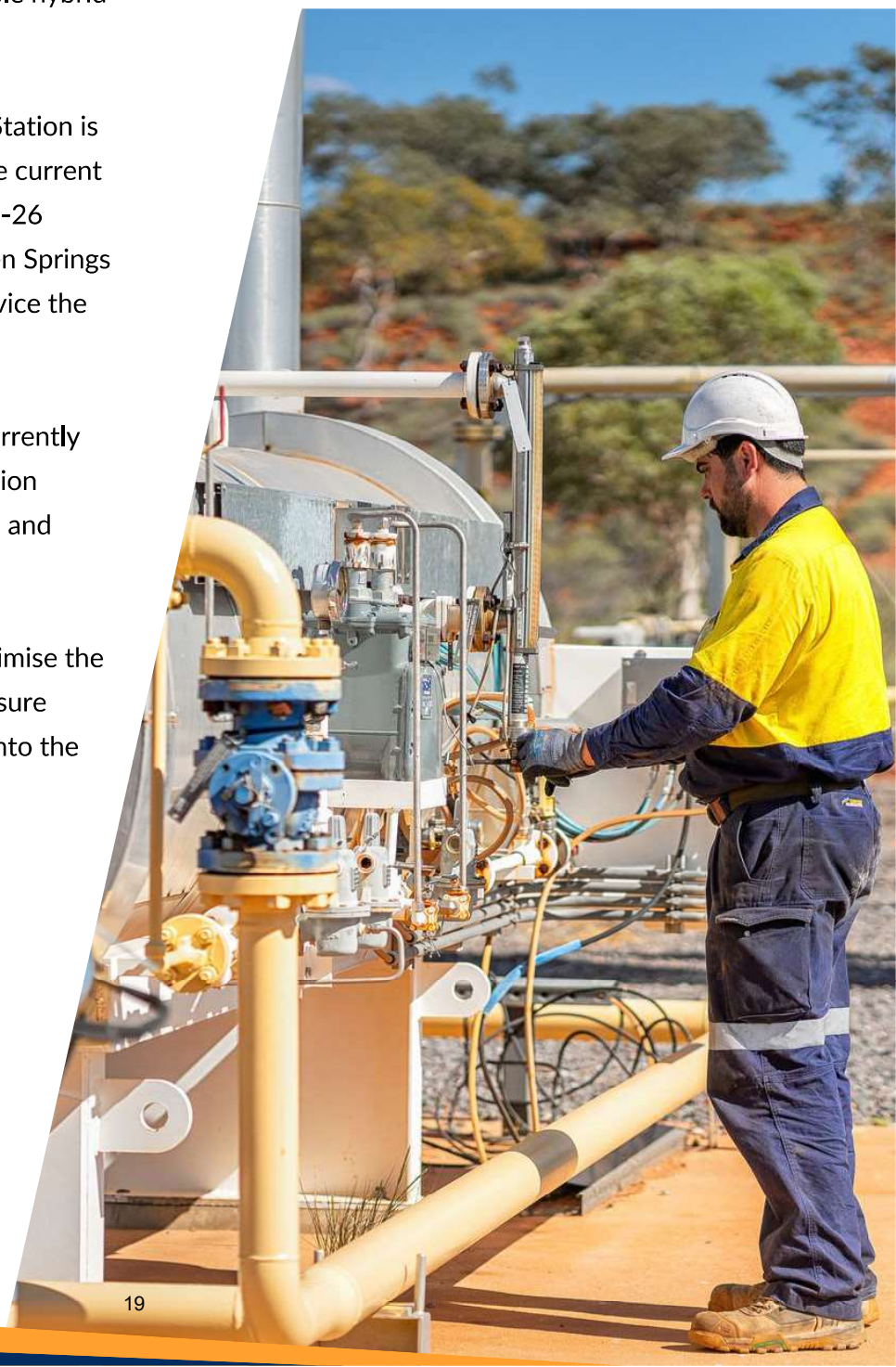
Alice Springs: The Ron Goodin Power Station is currently projected to operate under the current operational philosophy through to 2025-26 when the generation transitions to Owen Springs Power Station which will eventually service the full demand of Alice Springs.

Tennant Creek: Adequate capacity is currently installed in Tennant Creek, with the station capable of meeting demand on both gas and diesel fuels.

Yulara: Planned capital projects will optimise the use of existing renewable assets and ensure capacity remains available and reliable into the future.

Kings Canyon: The capacity in Kings Canyon is sufficient to meet current and forecast demand requirements.

A Battery Energy Storage System has been rented through TGen's microgrids feasibility study grant and will be installed and commissioned in the upcoming financial year. It is anticipated that a transition to an increased mix of renewable energy and battery storage will result in reduced operating costs at the power station.



Energy

Energy, including gas and diesel input costs, together with Power Purchase Agreement costs is TGen's greatest cost. The amount of fuel required to generate at power stations is based on the forecast volume output from each unit and each unit's efficiency based on an assumed heat rate curve. For 2023-24, the cost of delivered gas is based on the current gas agreement. For the purposes of the SCI, TGen has assumed that the current agreement will be continued, with terms and conditions substantially the same.

A reducing market share creates a reduction in gas consumption annually. These savings are not fully realised due to declining efficiency from increasing system services requirements and displacement of load from TGen's fleet. Capital projects in the Darwin-Katherine region, including the Darwin-Katherine ESS and fleet transition plan, will reduce gas consumption.

Diesel usage is based on the historical proportion of usage for the level of output for the regulated power systems and servicing the entirety of the load in Yulara and Kings Canyon.

Repairs and maintenance (R&M)

R&M expenses include the cost of materials, internal and external labour and services. The expenses have been estimated by each power station unit over the planning period and comprises of the costs for planned maintenance and an allowance for any unplanned maintenance. The estimated spend over the period is as follows.

Power Station ($M)	22-23	23-24	24-25	25-26	26-27
Channel Island	14.6	14.9	11.9	12.1	11.9
Weddell	2.9	3.0	2.8	2.9	2.8
Katherine	1.2	1.2	1.1	1.1	1.1
Tennant Creek	1.2	0.2	0.2	0.2	0.2
Ron Goodin	2.9	1.1	0.8	0.8	0.8
BESS	0.1	0.0	0.0	0.0	0.0
Owen Springs	4.5	5.6	5.3	5.4	5.2
Kings Canyon	0.2	0.1	0.1	0.1	0.1
Yulara	1.1	0.8	0.8	0.8	0.8
Total	**28.7**	**26.4**	**23.4**	**23.4**	**22.9**

Personnel

Staff roles have been based on assumed organisational structure to align with the overall strategic direction.

Wages are assumed to increase in line with the current negotiations for TGen's 2023-2027 Enterprise Agreement (EA).

Operational projects

Operational projects are non-capital projects intended to improve safety, reliability, efficiencies or reduce the costs of doing business.

Description ($'000)	23-24	24-25	25-26	26-27
Total operational projects	**2,435**	**350**	**0**	**0**

Capital expenditure

The continued increase in solar PV has resulted in an increased emphasis on the management of TGen's assets as this increases physical stress on the generators that will need to stop and start more often than designed.

The capital expenditure include the cost of TGen's fleet transition plan.

The total forecast for capital expenditure is:

Item ($M)	22-23	23-24	24-25	25-26	26-27
Total	**54.4**	**63.2**	**69.3**	**52.6**	**39.9**

Fixed assets and depreciation expense

The cost and book value of fixed assets is based on the fair value recorded in TGen's accounts.

Depreciation rates are forecast based on equivalent operating hours for the Prime Movers, and all other depreciable assets on the straight-line method over their useful lives. An approximate apportionment of depreciation expense by method is provided below:

Straight line	90%
Equivalent operating hours	10%

TGen has a capitalisation threshold of $1,000, with new assets capitalised and depreciated from the time they are available and ready for use.

Consumer price index (CPI)

Revenue and cost escalation assumptions are based on contractual or employment obligations where applicable.

Where no mandated escalations exist, the following CPI rates have been assumed:

	23-24	24-25	25-26	26-27
Consumer price index	2.5%	2.1%	2.4%	2.5%

Debt and interest

Debt is interest only and is assumed to be extended upon maturity through the SCI period.

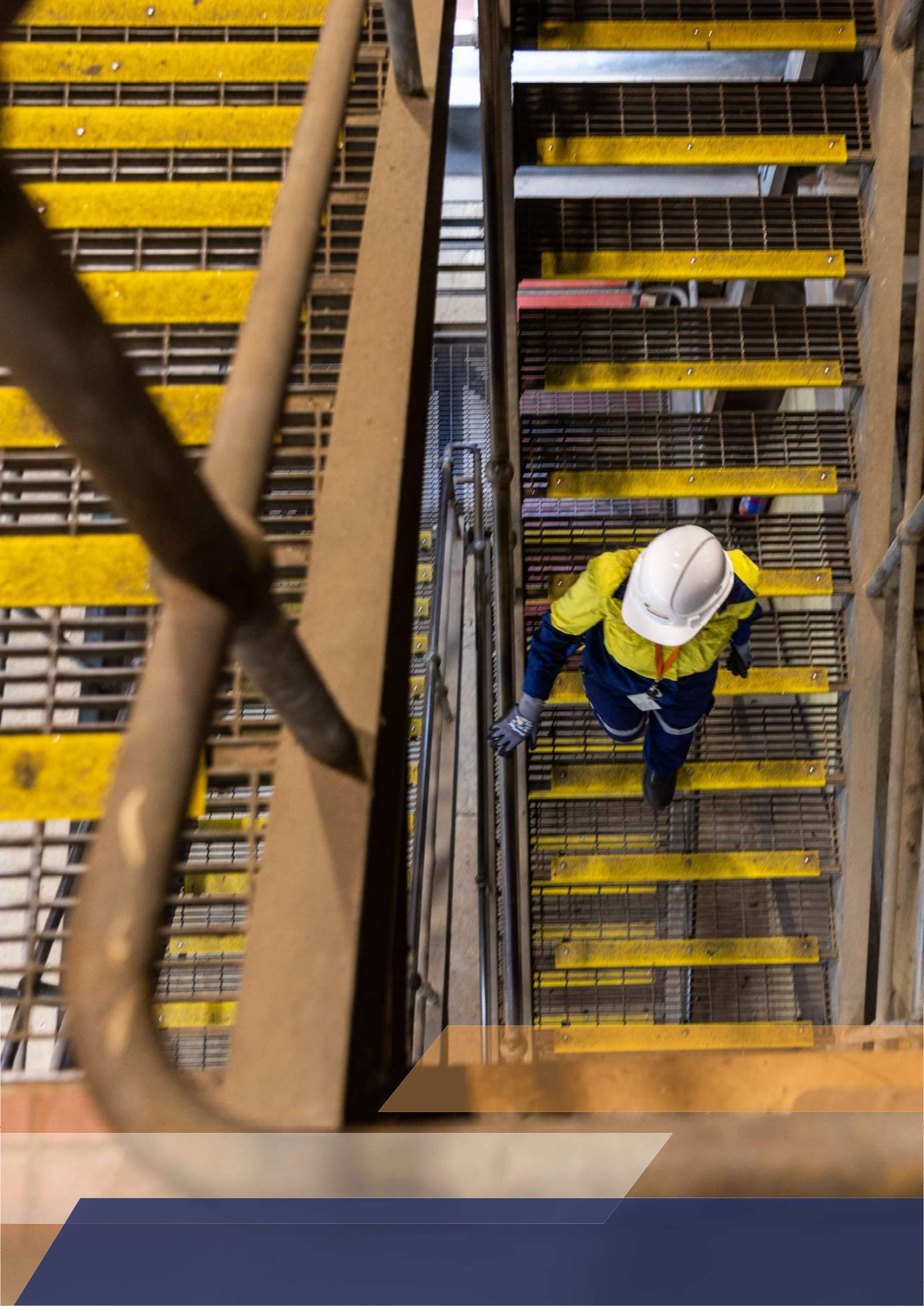
	23-24	24-25	25-26	26-27
Interest rate assumptions on new borrowings	6.5%	6.5%	6.5%	6.5%

Tax

Tax expense is assumed at the corporate tax rate and includes the impact of tax effect accounting on taxable income over the period.

Dividend

The NTG has the right to receive a dividend from TGen from 30 June net profit after tax, on the recommendation by TGen's Board.

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