

POWER AND WATER CORPORATION

# STATEMENT OF CORPORATE INTENT 2011-12



**PowerWater**

WE VALUE SAFETY

INTEGRITY

TEAMWORK

COMMITMENT

COMMUNICATION

WE VALUE SAFETY

#### SAFETY

Protecting the health and well-being of ourselves, contractors and the general public to achieve zero harm.

INTEGRITY

#### INTEGRITY

Engendering trust through open, honest and ethical behaviours.

TEAMWORK

#### TEAMWORK

Working together for a common purpose; achieving our goals in a supportive, respectful and enthusiastic manner.

COMMITMENT

#### COMMITMENT

Leading by example, continually improving, accountable for our actions and carrying them out with passion and purpose.

COMMUNICATION

#### COMMUNICATION

Engaging in an open, positive and constructive way to obtain better individual and business outcomes.



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# GLOSSARY

<b>ABDP</b>	Amadeus Basin to Darwin Pipeline	<b>G</b>	Generation
<b>ABS</b>	Australian Bureau of Statistics	<b>GHG</b>	Greenhouse Gas
<b>AC</b>	Asbestos Concrete	<b>GJ</b>	Gigajoules or 1,000,000,000 joules
<b>ACCC</b>	Australian Competition and Consumer Commission	<b>GM</b>	General Manager
<b>AMC</b>	Asset Management Capability project	<b>GOC Act</b>	<i>Government Owned Corporations Act</i>
<b>APA</b>	APA Group is comprised of the Australian Pipeline Trust and APT Investment Trust	<b>GSL</b>	Guaranteed Service Level
<b>AZRI</b>	Arid Zone Research Institute	<b>GST</b>	Goods and Services Tax
<b>BGP</b>	Bonaparte Gas Pipeline	<b>GSA</b>	Gas Supply Agreement
<b>BHC</b>	Ben Hammond Complex	<b>GWh</b>	A Gigawatt-hour, the electrical energy resulting from a steady Gigawatt use or production over one hour
<b>BPS</b>	Berrimah Power Station	<b>IES</b>	Indigenous Essential Services Pty Ltd
<b>CBD</b>	Central Business District	<b>ICT</b>	Information and communication technology
<b>CO<sub>2</sub>-e</b>	Measurement of total greenhouse gas emissions expressed as carbon dioxide equivalent	<b>kL</b>	Kilolitre
<b>COAG</b>	Council of Australian Governments	<b>KPI</b>	Key Performance Indicator
<b>CIPS</b>	Channel Island Power Station	<b>KPS</b>	Katherine Power Station
<b>CPI</b>	Consumer Price Index	<b>KRA</b>	Key Result Area
<b>CPRS</b>	Carbon Pollution Reduction Scheme	<b>kV</b>	Kilovolt, 1,000 volts
<b>CSGC</b>	Company Secretary General Counsel	<b>KWh</b>	Kilowatt hour
<b>CSO</b>	Community Service Obligation	<b>LCG</b>	Large-scale Generation Certificate (issued under the LRET)
<b>DLNG</b>	Darwin Liquefied Natural Gas plant, operated by ConocoPhillips, an international energy company	<b>LIP</b>	Local Implementation Plan
<b>EAF</b>	Equivalent Availability Factor	<b>LNG</b>	Liquefied Natural Gas
<b>EFOT</b>	Equivalent Forced Outage Factor	<b>LRET</b>	Large Renewable Energy Target
<b>EBIT</b>	Earnings Before Interest and Tax	<b>LTAP</b>	Long Term Action Plan developed to achieve the recommendations from the Mervyn Davies Inquiry in Power Networks
<b>EBITDA</b>	Earnings Before Interest Tax Depreciation and Amortisation	<b>LTI</b>	Lost time injury
<b>Eni</b>	Eni Australia BV, a subsidiary of Eni S.P.A., an international energy company	<b>LWWTP</b>	Ludmilla Wastewater Treatment Plant
<b>EOS</b>	Employee and Organisational Services	<b>LSWWTP</b>	Leanyer Sanderston Wastewater Treatment Plant
<b>ESAA</b>	Energy Supply Association of Australia	<b>M</b>	Million, 1000,000
<b>ESO</b>	Essential Services Officer	<b>MI</b>	Megalitre, 1,000,000 litres
<b>ETS</b>	Emissions Trading Scheme	<b>MW</b>	Megawatt, 1,000,000 watts
<b>FEED</b>	Front End Engineering Design	<b>MWh</b>	A megawatt-hour, the electrical energy resulting from a steady megawatt use or production over one hour
<b>FFO</b>	Free Funds from Operations	<b>MVA</b>	Megavolt Ampere
<b>FRC</b>	Full Retail Contestability (Competition)	<b>NPA</b>	National Partnership Agreement

<b>NPAT</b>	Net Profit After Tax	<b>T5</b>	Tranche 5 electricity customer – those who consume more than 160 MWh per annum
<b>NRETAS</b>	Department of Natural Resources, Environment, The Arts and Sport	<b>T6</b>	Tranche 6 electricity customer – those who consume less than 160 MWh per annum
<b>NT</b>	Northern Territory	<b>T2030</b>	Territory 2030 Strategy (Northern Territory Government)
<b>NTG</b>	Northern Territory Government	<b>TBD</b>	To Be Determined
<b>OSPS</b>	Owen Springs Power Station	<b>TCPS</b>	Tennant Creek Power Station
<b>PJ</b>	Petajoules or 1,000 Terrajoules	<b>Titan</b>	Solar Titan 130 gas turbine, an example of which is currently located at Ron Goodin Power Station
<b>PN</b>	Power Networks	<b>TGT</b>	Territory Growth Town
<b>Power and Water</b>	Power and Water Corporation	<b>ToP</b>	Take or Pay
<b>PPM</b>	Program and Portfolio Management	<b>Utilities Commission</b>	The Utilities Commission of the Northern Territory established by Part 2 of the <i>Utilities Commission Act</i>
<b>R</b>	Retail	<b>WPS</b>	Weddell Power Station
<b>R&amp;M</b>	Repairs and Maintenance	<b>WS</b>	Water Services
<b>RAMP</b>	Remedial Asset Management Program	<b>WSAA</b>	Water Services Association of Australia
<b>REC</b>	Renewable Energy Certificate, established under the <i>Renewable Energy (Electricity) Act</i>	<b>WWTP</b>	Wastewater Treatment Plant
<b>RET</b>	Renewable Energy Target, established under the <i>Renewable Energy (Electricity) Act</i>	<b>YPS</b>	Yulara Power Station
<b>RGPS</b>	Ron Goodin Power Station	<b>ZIP</b>	Zero Incident Process
<b>RISQ</b>	Power and Water system for reporting and recording hazards, near misses and injuries)	<b>ZSS</b>	Zone Substation
<b>RMS</b>	Retail Management System		
<b>RO</b>	Remote Operations		
<b>SAIDI</b>	System Average Interruption Duration Index		
<b>SAIFI</b>	System Average Interruption Frequency Index		
<b>SCA</b>	Strategy and Corporate Affairs		
<b>SCI</b>	Statement of Corporate Intent		
<b>SIHIP</b>	Strategic Indigenous Housing and Infrastructure Program		
<b>SRES</b>	Small Renewable Energy Scheme		
<b>STC</b>	Small-scale Technology Certificates (issued under the SRES)		
<b>STP</b>	Small-scale Technology Percentage		
<b>T1</b>	Tranche 1 electricity customer – those who consume more than 4 GWh per annum		
<b>T2</b>	Tranche 2 electricity customer – those who consume more than 3 GWh per annum		
<b>T3</b>	Tranche 3 electricity customer – those who consume more than 2 GWh per annum		
<b>T4</b>	Tranche 4 electricity customer – those who consume more than 750 MWh per annum		

# 1 INTRODUCTION

The Power and Water Corporation was established under the Power and Water Corporation Act 2002 and is a Northern Territory Government Owned Corporation under the Government Owned Corporations Act 2001 (GOC Act).

The Corporation's Board of Directors is responsible to the Shareholding Minister for Power and Water's operation and financial performance, and is required to provide an agreed Statement of Corporate Intent (SCI) each financial year.

This SCI provides information for the three financial years starting 1 July 2011, including Power and Water's strategies, risks, investment plans and performance targets. The Shareholding Minister is invited to approve the budget for the financial year to which the SCI relates and note the financial projections for the following two years.

This SCI continues Board support for rigor and candour in the assessment of Power and Water's strategic goals, planning assumptions, financial projections and associated risks.

Ernst and Young provided independent limited assurance on the assumptions and financial projections in this SCI.

## STRATEGIC DIRECTION

In accordance with the GOC Act, Power and Water's objectives are to:

- Operate at least as efficiently as any comparable business; and
- Maximise the sustainable return to the Territory on its investment in the Corporation.

To guide Power and Water's future direction, the Framework for Success sets a clear Vision for the Corporation, defines a Purpose to drive the Corporation's endeavours, and identifies the Values that guide the behaviour of employees through their actions and decisions. The framework outlines the five strategies to achieve our Vision.

## SCOPE AND NATURE OF ACTIVITIES

Power and Water provides power, water and sewerage services to customers throughout the Northern Territory. These services are either regulated or open to competition, as follows:

- Electricity Network services are regulated by the Utilities Commission;
- Electricity Generation services are open to competition;

- Water and Sewerage services are provided under monopoly licences;
- Retail electricity services are contestable and open to competition. Medium to large businesses can negotiate an electricity supply contract. Small to medium businesses and residential customers are protected by their current tariff arrangements for a two-year grace period following the introduction of full retail contestability on 1 April 2010.

For the three year SCI period the majority of gas supplies for electricity generation will be purchased directly from Eni Australia Limited which operates the Blacktip facility southwest of Darwin.

Power and Water provides electricity, water and sewerage services to 20 Territory Growth Towns, 52 communities and 82 outstations throughout the Northern Territory through the wholly owned, not for profit subsidiary company, Indigenous Essential Services Pty Ltd (IES). IES has an agreement with the Northern Territory Government, through the Department of Housing, Local Government and Regional Services for the reliable and equitable delivery of essential services to these communities.

## FRAMEWORK FOR SUCCESS

### OUR VISION

We aspire to be a leading utility business valued and respected in the community

### OUR PURPOSE

We will focus on meeting the power, water and sewerage needs of our customers, whilst acknowledging the expectations of our shareholders

### OUR STRATEGIES



### OUR VALUES

#### Safety

Protecting the health and well-being of ourselves, contractors and the general public to achieve zero harm

#### Integrity

Engendering trust through open, honest and ethical behaviours

#### Communication

Engaging in an open positive and constructive way to obtain better individual and business outcomes

#### Teamwork

Working together for a common purpose, achieving our goals in a supportive, respectful and enthusiastic manner

#### Commitment

Leading by example, continually improving, accountable for our actions, and carrying them out with passion and purpose

## 2 STRATEGIES

Power and Water's key strategies have been developed to meet the challenges facing the Corporation and achieve our Vision. The business and operational plans for each business unit are designed to execute these strategies to improve the responsiveness, reliability and efficiency of the services delivered.

### POWER AND WATER STRATEGIES AND KEY OBJECTIVES

#### FINANCIAL SUSTAINABILITY

*"Generate sufficient revenue to fund prudent and efficient investment in our operations and assets."*

- Achieve financially sustainable returns through a combination of cost reflective tariffs, Community Service Obligation (CSO) funding and other revenues
- Enhance management of capital and operating expenditure through better cost control and gains in efficiency

#### IN GOOD OPERATIONAL AND ASSET HEALTH

*"Manage operations and assets effectively to reliably deliver the required standards of services."*

- Fully implement and leverage the Asset Management Capability Program
- Drive improved asset performance, balancing both commercial and stakeholder perspectives

#### ORGANISATIONALLY CAPABLE

*"Provide a safe workplace with a constructive culture that delivers improved performance."*

- Have a safe workplace
- Develop a skilled, capable and competent workforce
- Develop an achievement oriented organisational culture

#### ENVIRONMENTALLY SUSTAINABLE

*"Demonstrate leadership in the delivery of environmentally sustainable operations and activities."*

- Meet our environmental and sustainability obligations in a commercially responsible fashion
- Establish an effective response to climate change

#### TRUSTED

*"Be a trusted Utility that delivers on its promises."*

- Effectively engage with key interest groups, Government, statutory bodies, customers and the wider community through sound policies and open, consultative relationships that result in a positive image of Power and Water as a responsible and reliable organisation
- Achieve high level of customer and employee satisfaction

In 2011-12, Power and Water will undertake the following initiatives towards achieving these key objectives:

#### FINANCIAL SUSTAINABILITY

Over the SCI period financial sustainability remains a significant challenge for the Corporation.

Financial sustainability for Power and Water means "generating revenue just sufficient to support the business as a going concern, able to maintain and replace assets and provide services at prevailing levels. There is no return on capital."<sup>1</sup>

Aligning revenue with costs is essential for Power and Water to be consistent with the *Government Owned Corporations Act*. Achieving ongoing financial sustainability for the Corporation requires increased cost recovery from tariffs and CSO payments, effective revenue management, together with prudent and effective investments in capital works and maintenance programs and effective management of operational expenditure.

The imposition by the Office of Renewable Energy Regulator of a revised scheme to replace Renewable Energy Certificates with the Commonwealth Government's Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES), has significantly impacted the Corporation by increasing costs, thus further reducing the capability for financial sustainability.

While the Corporation is taking steps to improve its financial sustainability, it remains exposed to considerable downside risks as discussed in chapter 6.

<sup>1</sup> Review of Power and Water Corporation Financial Sustainability, Andrew Reeves Report 20 March 2009



## REVENUE

In this SCI the current projection for revenues for electricity, water and sewerage show a consistent shortfall below that required for financial sustainability and a significant gap to achieving commercial sustainability.

The current tariffs established following the 2009 Reeves Review into Power and Water's financial sustainability fell short of the recommended tariff increases. The current price determination expires in 2012-13. Over recent years, power, water and sewerage tariffs have increased significantly throughout Australia and there are strong indications that this trend will continue.

To attain more cost reflective tariffs, Power and Water will work with the Utilities Commission and Northern Territory Treasury through the forthcoming regulatory price determination processes.

The SCI's revenue projections for water are also under pressure from the water demand management initiatives aimed at reducing domestic water use to achieve the Territory 2030 Strategy's lower consumption levels. Review of the current tariff structure needs to be considered to reduce a direct reliance on consumption to reflect a more realistic cost for maintaining the water infrastructure and asset base.

## EXPENDITURE MANAGEMENT

The major components of the Corporation's annual expenditure are the energy cost, personnel costs and repairs and maintenance. The energy costs payments are largely beyond the Corporation's direct control. A reduction in the personnel costs and repairs and maintenance expenditure would reduce the Corporation's capacity to improve service reliability through asset refurbishment or replacement and impede its capability to meet the growth in demand for services.

Power and Water will review the discretionary expenditure in the operational budget to identify possible savings without impacting on service delivery or the capital and repairs and maintenance programs.

## CAPITAL

Focus on the capital investment will continue with enhancements to governance, management and delivery of the program with a clear prioritisation of projects based on overall value to the business.

Power and Water will improve the planning, control and delivery of its capital, operating and maintenance programs. These improvements will be driven to ensure the:

- Prioritisation of essential asset investment based on overall value;
- Improvements in the quality of project estimates;
- Control of budgets and actual costs;
- Delivery of project milestones and outcomes; and
- Effective management of key risks.

In the longer-term, aligning revenue with costs is essential for Power and Water to be consistent with the *Government Owned Corporations Act*. Achieving ongoing financial sustainability for the Corporation requires a combination of cost-reflective tariffs and increased CSO payments, effective revenue management, together with prudent and effective investments in capital works and maintenance programs and effective management of operational expenditure.

While the Corporation is taking steps to improve its financial sustainability, it remains exposed to considerable downside risks as discussed in chapter 6.

## IN GOOD OPERATIONAL AND ASSET HEALTH

Power and Water continues to fully implement the 2009 Mervyn Davies Inquiry's recommendations into the Casuarina Zone Substation through system, process and organisation changes that:

- Introduced a 'condition-based' approach to substation maintenance;
- Delivered a significant recruitment and employee development program;
- Completed a condition assessment and undertaken a remedial program for all zone and distribution substation equipment; and
- Replaced the Casuarina Zone Substation switchboard and augmented associated equipment and building.

Remedial Asset Management Project (RAMP) identified several zone substations in poor condition that required replacement or rebuilding in particular Snell Street, City and Leanyer. This remedial program drives the need for substantial capital investment.

In the future, the main focus will be embedding RAMP within normal business operations of the Power Network operation.

The implementation of the Generation Investment Strategy is progressing to meet the strong demand for electricity in the Darwin-Katherine system and deliver a major refurbishment and life extension of the Channel Island Power Station (CIPS). This strategy advanced the acquisition and installation of two generating units to provide security of supply whilst the four year life extension program is carried out on CIPS units one to six.

The key activities for the Asset Management Capability (AMC) project in delivering AMC Phase 1 of the asset management and geographic information system include:

- Finalising the corporate asset management strategy and policy;
- Establishing consistent asset management roles and structures across the Corporation;
- Completing the cleansing and converting available asset information;
- Completing the development and testing of the AMC applications and systems; and
- Roll-out, including the training in new processes and supporting systems.

Initially, the asset management applications and processes will be phased into operation over the coming year, providing transactional efficiency in the procurement practices and works order management. In the medium term increased functionality and improvement in the quality and availability of data will drive productivity and enhanced asset maintenance.

The solution and tools provided by the AMC project will provide the Corporation with a detailed understanding of asset condition, criticality and capability. This knowledge will support the development of improved asset management strategies and detailed plans to achieve service level, reliability and supply security targets.

### ORGANISATIONALLY CAPABLE

Power and Water remains committed to its pursuit of its goal of zero harm with an enhanced drive to implement safe work practices and positively change the safety culture. The roll out of the Zero Incident Process (ZIP) training to all employees is at the forefront of improving the working environment by building on systemic practices and appropriate tools changing an employee's attitude and thinking around safety. The establishment of Health and Safety representatives to represent and assist

their colleagues will strengthen the focus on safety. The establishment of an on-site industrial nurse has had a positive effect on employees in supporting a proactive health and wellbeing program in addition to providing primary first aid and rehabilitation assistance.

Power and Water's approach to safety provides a solid foundation as the Corporation focuses on improving asset management practices to ensure the security and reliability of service delivery. This increased focus on supply security and reliability has resulted in increased staff resources necessary to deliver the R&M and capital investment programs. As the SCI progresses, the focus will shift to building the Corporation's leadership and workforce capabilities to deliver a more achievement oriented culture.

The Human Resources Strategy defines the approach and initiatives to develop the Corporation's workforce to meet the future workplace and business demands, in particular the need to enhance leadership and management capability. The Corporation has embarked on a Culture Change Program and Leadership Plan based on an agreed vision and shared values that underpin the preferred organisational culture. These substantial activities are the initial steps in a process that will contribute towards a significant shift in organisational culture. Leadership development and culture change of this nature will take time to emerge; generally three to five years. The Human Resources strategy is designed to:

- Build an understanding of workforce demographics, skills and capacities;
- Design and implement skill development frameworks to ensure applicable skills for the future;
- Develop and reinforce the preferred values and behaviours in the organisational culture;

- Develop leadership and management capabilities at all levels of the organisation;
- Improve human resource and safety capabilities and knowledge at all levels in the organisation; and
- Ensure employee engagement through effective communication processes and activities.

In keeping with Territory 2030 Strategy investing in and valuing our people, community and culture; Power and Water will enhance the level of participation by Indigenous Australians through specific recruitment and workforce development initiatives. The 10 year Indigenous Employment and Career Development Strategy aims to increase Indigenous participation within the mainstream corporate workforce by 2020.

### ENVIRONMENTALLY SUSTAINABLE

The release of the Territory 2030 Strategy and Climate Change Policy provided the foundation for the Corporation to frame its strategy for environmental sustainability. The commencement of the Climate Change Strategy during 2010-11 consolidated all previous initiatives. Crucially, this strategy will assess the potential operational and financial impacts of the various sustainability and climate change initiatives.

The Corporation will investigate the economic feasibility of a range of mitigation, adaptation and remediation measures, including:

- Reducing the level of greenhouse gas emissions through higher efficiency power generation;
- Enhancing water sustainability through moderation of water demand and an appropriate use of recycled water;
- Deploying alternative energy sources, particularly to displace diesel as a primary fuel for power generation in remote communities;

- Initiation of a power demand management strategy incorporating both socio-economic and technological elements, and
- Reducing the Corporation's own ecological footprint through the development of an Environmental Sustainability Strategy to pursue industry best practice to deliver essential services in an environmentally sustainable manner.

### TRUSTED

Power and Water continues to build customer confidence by improving the reliability and security of services. The targeted approach to fixing the supply and reliability problems will continue to be achieved by delivering the capital investment program and achieving the repairs and maintenance plan.

During this SCI period, Power and Water will refine its Communications Strategy to target key business partnerships and community stakeholders, and embrace the use of modern media techniques, particularly the use of on-line messaging and social networking methods to communicate openly and transparently with customers, the community and Government.

The Communications Strategy will continue to inform and educate the community and increase customer and stakeholder understanding of the Corporation's services and capabilities.

A key aspect in changing the culture in the organisation will be the continuing communication and forums with employees and the engagement of employees in workforce planning and change.

### INDIGENOUS ESSENTIAL SERVICES

Indigenous Essential Services Pty Ltd (IES) is funded separately to Power and Water by the Northern Territory Government. IES has a three year agreement with the Northern Territory Government, through the Department of Local Government, Housing and Regional Services, for the reliable and equitable delivery of essential services to remote communities and nominated outstations, which expires in 2013. Electricity demand in Growth Towns and Indigenous Communities is growing rapidly, in part due to the various infrastructure programs that are underway and the increasing use of high energy consumption appliances.

Over the SCI period, IES expects several policy changes. These include:

- **The Strategic Indigenous Housing and Infrastructure Program (SIHIP) and Land Servicing and Essential Services Program:**

A number of Council of Australian Governments (COAG) National Partnerships Agreements (NPA) have been negotiated which have a direct impact on the delivery of services to remote locations. Northern Territory Growth Towns and Remote Indigenous communities will have standards of service and infrastructure broadly comparable with those in non-Indigenous communities of similar size, location and need elsewhere in Australia. Furthermore, the national principles for Investment in Remote Locations have been adopted by the Northern Territory Government.

IES has identified key initiatives in the following focus areas:

- **Water for Healthy Communities:**  
The Water for Healthy Communities initiative adopts a risk-based approach to water management to provide the complete integration

of the closed water cycle. This initiative integrates the Strategy for Safe Water, Sustainable Water Management Strategy and Wastewater Management Strategy and includes the asset replacement program to expand and replace aged water and wastewater infrastructure and bring assets up to a serviceable condition.

- **Implementation of increased Energy and Water conservation program:**

With increasing demand, a business case is being developed to define a clear overview of where conservation and efficiency programs can be used and the estimated effect of these programs, and includes a detailed plan to identify steps and actions for the next 2 years providing a recommendation for the medium and long term approach.

- **Increased focus on the energy source changes defined in the energy source strategy:**

The Strategy Towards 2020 provides an economic and technical assessment of energy source options available for remote power generation with the objectives of:

- replacing diesel fuel as the primary source of power generation in remote towns and communities, by pursuing a diversified energy source mix for the period up to 2015. The longer term approach will be finalised to ensure PWC avoids being locked into a high cost energy mix for the future;
- minimising long term service delivery costs, meeting community demand growth in an economic and environmentally sustainable manner;
- making efficient use of emerging technologies and gaseous fuels; and
- preparing for the financial impacts of climate change.

- **Workforce capability including ESO development:**

The development of ESOs will be a priority resulting from the combination of a retiring ESO workforce and an increase in complexity of power, water and sewerage infrastructure, incurred from various initiatives in water quality and solar power.

- **Manage direct and indirect responsibilities as defined in Local Implementation Plans:**

Through the NPA on Remote Service Delivery, Governments and

community members are developing Local Implementation Plans (LIPs) to guide future investment, cooperation and partnerships in communities.

The implementation of these LIPs will include additional housing, commercial buildings as well as government buildings and will have an impact on the demand for essential services. PWC will participate on the various working groups and provide advice on the current status of the services, and potential limitations, and focus on the land servicing tasks associated with the additional infrastructure.

# 3 MAJOR ASSUMPTIONS

This chapter describes the most significant assumptions used to prepare the financial projections included with this SCI.

## DEMAND FORECASTS

### ELECTRICITY DEMAND

Underlying electricity demand growth is based on historical trends for organic growth as well as projected demand from major customers, analysis of new building developments, and medium term weather patterns. Figure 1 shows the 2011-12 electricity demand forecasts for the Northern Territory for total energy consumption and the Darwin-Katherine region for peak demand.

Organic demand growth is estimated at 2.97 per cent per annum for energy consumption and 2.5 per cent for peak demand in the Darwin-Katherine and Alice Springs regions. This compares to 2.23 per cent for energy and 2.5 per cent for peak demand reported in the previous SCI. A relatively high growth in energy demand has been experienced in recent years from large customers and the increased energy consumption projection is consistent with this. Trends in peak demand

growth are harder to establish than trends in energy demand growth due to varying weather conditions each year. The future years exclude specific prospective growth for large customers, including any change in supply arrangements at Jabiru.

Experience indicates that speculative growth (such as new mines) is difficult to predict but potentially adds significantly to energy demand.

Peak demand forecasts drive the capital investment program. Forecast energy consumption is used to determine fuel requirements and calculate revenue projections. Customer numbers are used for projections of fixed daily charge revenue. Increases in customer numbers are based on long term forecast population growth.<sup>2</sup>

No additional prospective loads have been included; however, significant load increases have been included

for a number of large existing major customers.

### WATER DEMAND

Water demand forecasts are based on extrapolation of historical demand growth. Figure 2 shows forecast demand growth for the Northern Territory.

Demand for water consumption is projected to decrease by an average of 0.80 per cent per annum over the next 3 years. This decrease is expected to eventuate from the residual effect of price elasticity on demand and the small but growing influence of demand management initiatives on consumption in the latter period of this SCI. The baseline forecasts do not account for any prospective developments such as major new industrial customers. Increases in customer numbers are based on long term forecast population growth.

FIGURE 1

2011-12 DEMAND FORECAST			
DESCRIPTION		TOTAL NT ENERGY CONSUMPTION (GWH)	DARWIN-KATHERINE PEAK DEMAND (MW)
2010-11 Base		2,057.5	289.3
Change in demand		61.1	7.2
2011-12 Forecast Total	2.97%	2,118.6	2.5% 296.5

FIGURE 2

2011-12 DEMAND FORECAST		
DESCRIPTION		TOTAL WATER CONSUMPTION (ML)
2010-11 Base		53,461
Organic growth	+0.90%	482
2011-12 Forecast Total	+0.90%	53,943

<sup>2</sup> Australian Bureau of Statistics, ABS population projections Cat.No.3222.7 Series B.

## POWER AND WATER DEMAND FOR REMOTE COMMUNITIES

Significant housing and other investment in some communities will continue to see large growth in electricity demand above the assumed baseline. The growth will result from implementation of the Commonwealth Government and Northern Territory Government initiatives, specifically, the Strategic Indigenous Housing, Infrastructure Program, Closing the Gap of Indigenous Disadvantage plan of action, and the 20 Growth Towns policy.

Electricity, water and sewerage consumption for IES in 2011-12 is forecast to increase at rates listed. (Figure 3).

The high rates applied to IES water consumption growth reflect the impact of the Northern Territory Government and Power and Water initiative of installing water meters in Indigenous communities from 2008-09 and extending a user pays policy to Shire Councils and customers other than domestic Indigenous households.

## REVENUE PROJECTIONS

### ELECTRICITY, WATER AND SEWERAGE TARIFFS

The revenue projections provided in this SCI are based on the tariff price increases for electricity, water and sewerage for the four year period to 2012-13 announced during 2008-09. Figure 4 shows the approved increases for 1 July 2011, with increases for outer years based on projections of the Consumer Price Index (CPI). In practice, outer year increases will be based on the actual CPI as reported by the Australian Bureau of Statistics for the relevant year.

For the purpose of this SCI, Power and Water has applied a CPI-based tariff price path for 2013-14. However, it is understood that the next major review of retail tariffs will be undertaken in 2012-13. The actual tariffs will be determined by the Northern Territory Government on the basis of advice from the Utilities Commission.

The electricity tariff increases relate only to Tranche 4 (T4), Tranche 5 (T5) and Tranche 6 (T6) customers. Tranche 1, Tranche 2 and Tranche 3 (T1-3) customers are subject to negotiated contracts. Within this SCI, T1-3 tariffs have been conservatively adjusted by 3.6 per cent in 2010-11; 5.9 per cent in 2011-12; and CPI thereafter. In reality, T1-3 customer tariff increases will depend on factors at the time of contract negotiation including the cost of providing supply, the approved networks tariff, customer demand profile, contract length and risk.

Power and Water has compared its tariffs to those in other jurisdictions with the results provided in the Appendix. When compared with tariffs for residents in other states, the results demonstrate that current tariffs for electricity and sewerage are now below the Australian average. Northern Territory residents' tariffs for water are currently the lowest in Australia.

Recently there have been significant regulated price increases announced in other Australian jurisdictions. The result will be continued divergence of, particularly, electricity prices between the Northern Territory and other states such that tariffs in the Northern Territory will be amongst the lowest in Australia. In contrast, different fuel sources, long distances, remote locations, the need for reserve capacity and limited operational scale result in higher service delivery costs than in other jurisdictions. This

mismatch between the Corporation's tariffs and its cost structure is a cause for concern as the resulting cash flow is insufficient to fund the capital investment program necessitating large and on-going borrowings.

Power and Water revenues are projected to increase steadily over the period, reflecting demand growth and the price path for water, sewerage, trade waste, T4, T5 and T6 electricity customer prices to 2012-13. Figure 5 shows the resulting revenues for Power and Water.

## COMMUNITY SERVICE OBLIGATIONS

Community Service Obligation (CSO) funding included in this SCI is as advised by Northern Territory Treasury. (Figure 6).

The CSO funding includes the pensioner concession scheme to ensure that pensioners are not impacted by the tariff rise. All other revenue items are projected to increase in line with CPI over the life of this SCI.

## OPERATING COSTS

The budget for 2011-12 operating costs is based on detailed cost estimates. Operating costs in the outer years are projected to increase by CPI. The assumed CPI, presented Figure 7, is in line with Northern Territory Treasury advice.

At the time of formulating the personnel budget for 2011-12 negotiations for the development of the 2010-2013 Enterprise Bargaining Agreement were ongoing.

FIGURE 3

PROJECTED IES ELECTRICITY, WATER AND SEWERAGE CONSUMPTION GROWTH				
DESCRIPTION	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
Electricity	8.5%	10.2%	8.9%	5.3%
Water	25.0%	25.0%	0.0%	0.0%
Sewerage	0.0%	0.0%	0.0%	0.0%

FIGURE 4

APPROVED AND PROJECTED TARIFF INCREASES			
	INCREASE EFFECTIVE FROM:		
	1 JULY 2011 PROJECTED CPI	1 JULY 2012 PROJECTED CPI	1 JULY 2013 PROJECTED CPI
Electricity (Tranche 4, 5 & 6)	2.8%*	2.5%*	2.5%*
Water and Sewerage	20.0%	2.5%*	2.5%*

\* Estimated increase. In practice, outer year increases will be based on the actual CPI (ABS Cat.no. 6401.0 All groups, Weighted average of eight capital cities, Year to December Quarter).

FIGURE 5

PROJECTED REVENUES (POWER AND WATER CORPORATION UNCONSOLIDATED)				
(\$M)	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
Electricity	334.4	369.5	397.8	426.0
Water	58.6	73.8	76.2	78.0
Sewerage	38.8	47.3	49.0	51.0

FIGURE 6

COMMUNITY SERVICE OBLIGATIONS				
(\$M)	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
CSO funding	66.5	69.4	71.1	72.9

FIGURE 7

OPERATING ASSUMPTIONS (POWER AND WATER CORPORATION UNCONSOLIDATED)			
	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
CPI	2.8%	2.5%	2.5%
Salaries and Wages	4.5%	4.5%	9.0%

Assumptions in the personnel budget are based on the offer which will be voted on during March – April 2011.

The 2011-12 budget incorporates an 12.7 per cent staff increase from 2010-11 forecast levels reflecting the resources required to deliver the capital and repairs and maintenance programs (Figure 8).

## FUEL SUPPLIES

The new gas supply from Eni has been available from the Blacktip field in the Bonaparte Gulf from January 2010.

The financial projections in this SCI assume that the Blacktip gas field will provide the majority of gas supplies for electricity generation in the major centres. Back-up gas supplies are available from the

Darwin LNG via the Wickham Point interconnect pipeline, and diesel fuel is needed only in case of emergency and in remote communities.

## REPAIRS AND MAINTENANCE EXPENDITURE

Figure 9 provides a breakdown of repairs and maintenance (R&M) expenditure.

The forecast R&M expenditure for 2011-12 represents a 56 per cent increase over the 2010-11 forecast. The R&M expenditure covers the on-going planned and preventive maintenance necessary to improve service delivery and reliability. The majority of the increase is due to a more rigorous approach to internal labour time

recoveries for Capital and R&M projects.

## OTHER FINANCIAL ASSUMPTIONS

New loans are assumed to be interest only, with interest expense rates for cash at bank to be 4.25 per cent and draw downs forecast for 2011-2012 and beyond at 7.25 per cent, consistent with Northern Territory Treasury advice.

This SCI assumes that the Corporation will be largely unaffected by fluctuations in AUD/USD exchange rates due to relatively low exposure to expenditure in USD.

It is assumed that the current dividend moratorium remains in place for the SCI period.

FIGURE 8

PROJECTED STAFF INCREASES				
	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
Staff numbers	930	1,048	1,040	1,040
Per cent increase		12.7%	0%	0%

FIGURE 9

SCI REPAIRS & MAINTENANCE (POWER AND WATER CORPORATION UNCONSOLIDATED)				
\$M	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
Total	54.8	85.3	86.5	94.6



## 4 FINANCIAL PROJECTIONS

This chapter comments on the resulting projections of Power and Water's financial performance and fiscal position.

Key financial results for the period of this SCI are summarised in Figure 10. The results discussed in this section are unconsolidated, that is, excluding

subsidiaries Indigenous Essential Services Pty Ltd, Darnor Pty Ltd and Gasgo Pty Ltd.

FIGURE 10

SUMMARY OF FINANCIAL RESULTS (POWER AND WATER CORPORATION UNCONSOLIDATED)					
	2010-11 BUDGET	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
Total Revenue (\$M)	676.3	526.8	589.5	625.9	660.4
Operating Costs (\$M)	553.2	434.2	442.7	457.4	482.5
NPAT (\$M)	-10.8	-21.2	8.7	14.2	11.1
Capital Investment (\$M)	379.4	328.3	289.6	277.5	241.4
Loan draw downs (\$M)	293.0	293.0	159.0	227.0	195.0
Cash at bank (\$M)	10.7	96.8	10.1	10.7	10.6
Debt to Equity swap (\$M)	112.6	110.9	41.7	63.8	82.0
Debt to equity ratio (%)	137%	185%	197%	202%	194%
Interest cover (times)	0.8	0.5	1.2	1.2	1.2
Gearing (%)	58%	65%	66%	67%	66%
FFO to Interest (times)	1.8	1.3	1.8	1.8	1.7
Return on Total Assets (%)	3%	2%	5%	5%	5%

\* In the 2010-11 Budget Total Revenue and Operating Costs have been grossed up by \$133.9 million to reflect a Gas Sales Agreement whereas this is not included in the 2010-11 Forecast

# 5 TARGETS

## TRACKING AND REPORTING PROGRESS

Two measures are used to assess progress in achieving the Corporation's strategic objectives including, first, a set of Key Performance Indicators and, second, the Key Result Areas. Both are reported and reviewed regularly by the Board and management.

The Key Performance Indicators (KPIs) recognise success with a quantifiable measurement. The 2011-12 SCI sets KPI targets in accordance with the regulatory obligation or commitment, for example, based on the Standards of Service published by the Utilities Commission.

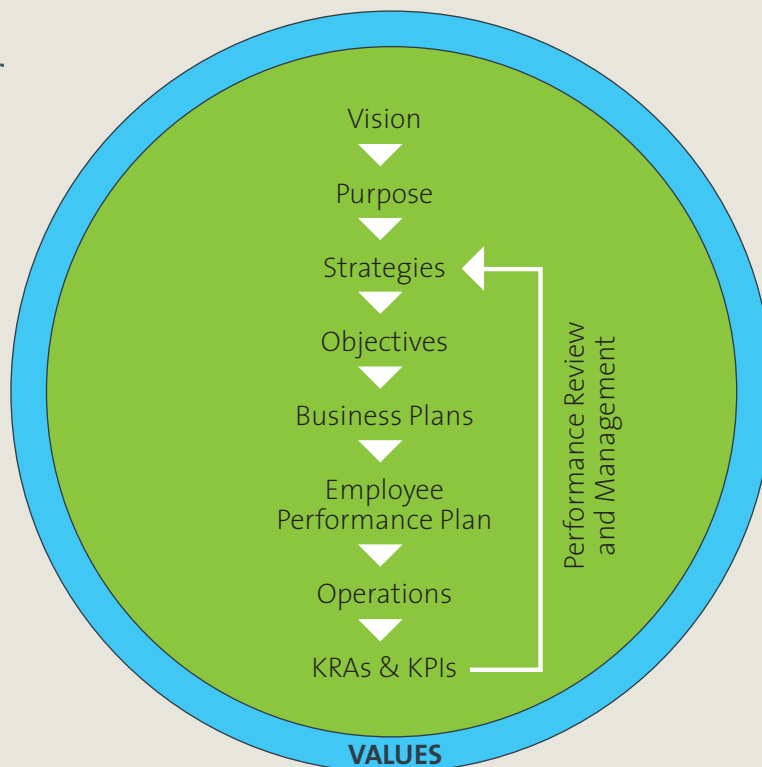
The Key Result Areas (KRAs) represent less quantifiable but important milestones that must be delivered to attain the strategic objectives, including activities in 2011-12 to upgrade infrastructure and systems, undertake the transformation of processes and change the way we work together and interact with our stakeholders.

The KPIs stated in the SCI represent the most significant measures and may be supplemented in the business unit plans with additional operational measurements.

## STRATEGIC MANAGEMENT FRAMEWORK

Power and Water's Strategic Management Framework is designed to ensure day to day operations and activities are aligned to the Corporation's strategic direction. Core values encompass our work and guide our interaction with other employees, and our dealings with customers, community and other stakeholders in delivering the Corporation's purpose. Performance review and management provides the mechanism to drive the achievement of results and provide an opportunity for continuous improvement. The framework is illustrated in the diagram below.

## STRATEGIC MANAGEMENT FRAMEWORK



## KEY PERFORMANCE INDICATORS

KPIs and targets are set out in the following tables. The performance targets are shown as annual projections over the SCI period, and are subject to revisions each year to reflect the Corporation's commitment to continuous improvement.

FINANCIALLY SUSTAINABLE KPI MEASURES (POWER AND WATER CORPORATION UNCONSOLIDATED)					
OBJECTIVE	MEASURE	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
Achieve sustainable returns through a combination of cost reflective tariffs, CSO funding and other revenues	Gearing ratio <sup>3</sup> (%)	65	66	67	66
	Cash flow from operating activities (\$M)	2	46	53	48
	FFO to interest (times) <sup>4</sup>	1.3	1.8	1.8	1.7
Enhance management of capital and operating expenditure through better cost control and gains in efficiency	Adjusted EBITDA <sup>5</sup> (\$M)	15.1	65.5	86.1	93.5
	Return on assets <sup>6</sup> (%)	2	5	5	5

<sup>3</sup> Gearing Ratio (<60%) Debt/(Net Debt plus Equity)

<sup>4</sup> FFO to interest (>2) EBITDA less gifted assets less tax paid/Interest Expense

<sup>5</sup> Adjusted EBITDA EBITDA less CSO funding less Gifted Assets less capital contributions

<sup>6</sup> Return on Assets EBIT/ Average Total Assets

## IN GOOD OPERATIONAL AND ASSET HEALTH KPI MEASURES

OBJECTIVE	MEASURE	2010-11 TARGET	2011-12 TARGET	2012-13 TARGET	2013-14 TARGET
Drive improved asset performance, balancing both commercial and stakeholder perspectives	SAIDI <sup>7</sup> Networks Duration Interruption (mins)				
	Darwin	220	220	220	220
	Katherine	401	401	401	401
	Tennant Creek	411	411	411	411
	Alice Springs	108	108	108	108
	SAIFI <sup>8</sup> Networks Frequency Interruptions				
	Darwin	4.2	4.2	4.2	4.2
	Katherine	9.6	9.6	9.6	9.6
	Tennant Creek	9.8	9.8	9.8	9.8
	Alice Springs	2.9	2.9	2.9	2.9
	Average duration unplanned interruption water <sup>9</sup> (mins)				
	Darwin	90	90	90	90
	Alice Springs	120	120	110	110
	Average frequency of unplanned interruptions water <sup>10</sup>				
	Darwin	210	210	200	190
	Alice Springs	90	90	90	90
	Water main breaks <sup>11</sup>				
	Darwin		50	40	30
	Alice Springs		40	40	30
	Sewerage Chokes and Blockages <sup>12</sup>				
	Darwin		30	30	30
	Alice Springs		40	40	40
	Generation equivalent availability factor (EAF) <sup>13</sup> (%)				
Darwin	84.0	88.5	88.5	88.5	
Alice Springs	88.5	88.5	88.5	88.5	
Generation equivalent forced outage factor (EFOF) <sup>14</sup> (%)					
Darwin	7.5	3.0	3.0	3.0	
Alice Springs	7.5	3.0	3.0	3.0	
Major Projects on Budget <sup>15</sup> (%)		80	90	100	
Major Projects on Schedule <sup>16</sup> (%)		70	80	90	
Major Projects Outcome Delivery <sup>17</sup> (%)		90	100	100	

<sup>7,8</sup> SAIDI and SAIFI: Reflects outcome of Utilities Commission's Standards of Service Review to report performance for periods 2011-12 to 2013-14 to establish targets for average distribution network reliability performance.

<sup>9</sup> Average duration a customer is without supply of drinking water for the year (minutes).

<sup>10</sup> Frequency customers are without access to the water supply service (per 1000 customers).

<sup>11</sup> New KPI for 2011-12 SCI. Number of water main breaks per 100km.

<sup>12</sup> New KPI for 2011-12 SCI. Number of chokes or blockages per 100km

<sup>13</sup> New KPI for 2011-12 SCI. Measures plant capability for energy generation ((MWh max – MWh loss x100)/ MWh max)

<sup>14</sup> New KPI for 2011-12 SCI. Equivalent forced outage factor measures percentage of energy lost due to all forced outages. (All MWh losses forced & partial x 100 / MWh max)

<sup>15</sup> New KPI for 2011-12 SCI. Major projects defined equal to or greater than \$5 million. Percentage of major projects below approved business case budget.

<sup>16</sup> New KPI for 2011-12 SCI. Major projects defined equal to or greater than \$5 million. Percentage of major projects delivered ahead of approved business case schedule.

<sup>17</sup> New KPI for 2011-12 SCI. Major projects defined equal to or greater than \$5 million. Percentage of major projects where outcomes or objectives achieved as verified in PIR report.

ORGANISATIONALLY CAPABLE KPI MEASURES					
OBJECTIVE	MEASURE	2010-11 TARGET	2011-12 TARGET	2012-13 TARGET	2013-14 TARGET
Have a safe workplace	Lost time injuries <sup>18</sup>	<4	<4	<4	<4
	Number of incidents reported in RISQ <sup>19</sup> (%)	N/A	+10%	+10%	+10%
Develop an achievement oriented organisational culture	Staff Satisfaction Index <sup>20</sup>	81%	81%	82%	82%

ENVIRONMENTALLY SUSTAINABLE KPI MEASURES					
OBJECTIVE	MEASURE	2010-11 TARGET	2011-12 TARGET	2012-13 TARGET	2013-14 TARGET
Meet our environmental and sustainability obligations in a commercially responsible fashion	* Emission Intensity kg (CO <sub>2</sub> -e/MWh) sent out				
	Combined Major and Minor Power Stations	582	563	541	533
	* Water Demand <sup>21</sup> (kl/household)				
	Darwin	458	458	455	449
	Alice Springs	538	538	536	507

TRUSTED KPI MEASURES					
OBJECTIVE	MEASURE	2010-11 TARGET	2011-12 TARGET	2012-13 TARGET	2013-14 TARGET
Achieve high level of customer and employee satisfaction	Average call response time <sup>22</sup> (%)	63	63	63	63
	Customer Satisfaction Index: Domestic & Commercial <sup>23</sup> (%)	81	82	83	83
	Re-connections to existing electricity supply properties within 24 hours <sup>24</sup>	98%	98%	TBD	TBD
	New connections in CBD and urban areas within 5 working days <sup>25</sup>	90%	90%	TBD	TBD

- \* Note the Territory 2030 Strategy: Power and Water will investigate, model and assess the specific impacts to its financial requirements for capital investment and operational expenditure in attaining the prescribed milestones and targets inherent in these Northern Territory Government initiatives.
- By 2015, reduce greenhouse gas emissions intensity of power generation at the Power and Water Corporation's Channel Island and Weddell Power Stations by 10% compared to 2009 levels. (2008-09 606 kg CO<sub>2</sub>-e/MWh sent out baseline figure adjusted to reflect normal operations with adequate gas resources. Figures do not include remote community power stations).
- Reduce the amount of water that Territory households use by 20% by 2015 and a further 10% by 2020 compared to 2009 consumption (2008-09 consumption for Darwin 491 kl/household and Alice Springs 532 kl/household.)

<sup>18</sup> In accordance with the Safety Incentive Scheme contained in the 2010-11 Enterprise Agreement.

<sup>19</sup> New KPI for 2011-12 SCI. Increased reporting of all incidents in RISQ (hazards, near misses and injuries.) 10% improvement on previous year commencing with 2011-12.

<sup>20</sup> This target relates to a satisfaction rating of 6 or better. Percentage of staff rating satisfaction of 6/10 or better, measured annually over the survey period. Covers all Power and Water staff and is based on number of survey respondents.

<sup>21</sup> Water Demand expressed as kl per household.

<sup>22</sup> Call Response: Percentage of call answered within 20s reflecting the outcome of Utilities Commission's Standards of Service Review to report performance.

<sup>23</sup> Percentage of customers that rate their overall satisfaction with Power and Water services as good or better. Covers major centres (including Darwin rural) based on random sample of total customer population.

<sup>24,25</sup> Reflects outcome of Utilities Commission's Standards of Service and Electricity Retailer Incentive Scheme Reviews to revise reporting metrics and establish performance targets from 2012-13 onwards.

## 6 RISKS

Although the SCI is based on the best information that is currently available, several risks exist that may affect achievement of the financial and operational outcomes set out in Chapter 4 Financial Projections and Chapter 5 Targets.

These risks include:

- Unsustainable financial position;
- Capital Investment Program delivery;
- Environmental considerations;
- Regulatory environment changes; and
- Increased demand for services.

### SUSTAINABLE FINANCIAL POSITION

The financial sustainability of the Corporation remains challenging in the near term due to the necessary capital investment program. If a more sustainable revenue model based on cost reflective tariffs or higher a level of Community Service Obligations is not attained for 2012-13 onwards, Power and Water will need to review and curb expenditure to maintain its financial health.

The major components of the Corporation's annual expenditure are the energy costs, personnel costs and repairs and maintenance. The energy costs payments are largely beyond the Corporation's direct control. A reduction in the personnel costs and repairs and maintenance expenditure would reduce the Corporation's capacity to improve service reliability through asset refurbishment or replacement and impede its capability to meet the growth in demand for services.

Whilst the Corporation has reduced its level of reliance on diesel for the generation of electricity, there still exists an exposure to higher prices for diesel resulting from normal market activities and more recently in the short to medium term from the political events and uprisings in the Middle East. The exposure to a higher diesel price is greater for Indigenous Essential Services Pty Ltd with a larger consumption of diesel for electricity

generation in the remote communities and nominated outstations.

### CAPITAL INVESTMENT PROGRAM DELIVERY

Several risks are associated with the delivery of the Capital Investment Program; in particular, the size of the program will challenge the Corporation's capacity to deliver projects on time and within budget.

Predictions for the Territory's economy are for continued growth driven by significant resource projects in the LNG and mining sectors. Inevitably this competition will reduce contractor availability, impact material supply, increase equipment delivery lead times; consequently driving up the project delivery costs and delaying completion timeframes. This competitive market will be felt in local industry sectors, which is contracted to deliver a substantial part of the Capital Investment Program.

Power and Water is determined to deliver the Capital Investment Program and improve asset management capabilities. Focus on attainment will be driven by the implementation of program and portfolio governance processes and the enhancement of operational capabilities through development and recruitment of technical and professional staff. The failure to attract and retain skilled staff will result in project delays and increased costs to outsource projects to professional services organisations.

Additional impacts on the scope and timing of the Capital Investment Program include:

- Compliance to new regulatory or licence conditions may impact the Capital Investment Program;
- Increasing competition for resources, equipment and material

increasing prices and reducing availability driven by the growth in mining and resources industry and from rebuilding activity in the construction industry;

- The nature of the Capital Investment Program can be affected by changing community expectations of new projects and by delays or additional expense to obtain environmental approvals;
- Achieving the resultant outcomes from the Utilities Commission's review of Power and Water's capital and maintenance programs, electricity system planning and standards of service may change the planning and delivery standards thus impacting project scope and timing; and
- If certain proposed residential or industrial developments occur in the near term additional capital, estimated at around \$124 million, will be required.

### ENVIRONMENTAL CONSIDERATIONS

#### RENEWABLE ENERGY CERTIFICATES

From January 2011 Power and Water became liable for additional obligations under the Commonwealth Government's *Renewable Energy (Electricity) Act*. The Large Renewable Energy Target (LRET) and Small Renewable Energy Scheme (SRES) were introduced to drive the development and deployment of renewable energy technology and resources.

The national target for LRET in 2020 has been set at 41,000 GWh. For Power and Water the target in 2020 will be close to 350,000 Large-scale Generation Certificates (LGC), rising progressively from 89,000 LGCs in 2011. The LRET prices will be market driven.

In the case of SRES the Office of the Renewable Energy Regulator forecasts the likely production of small-scale technology certificates (STC) from small generation units: small household rooftop PV systems and solar hot water units. The Regulator translates the forecast to a percentage of the liable entity sales for the year. For 2011 the small-scale technology percentage (STP) has been set at 14.8 per cent, but reduces in subsequent years. The application of STP translates to an obligation of around 236,000 STCs for Power and Water.

The LRET and SRES targets being externally set pose a potential liability to Power and Water from an increase in expenditure during the SCI period.

## CARBON TAX

In the SCI period, the Commonwealth Government has indicated the introduction of an Emissions Trading Scheme (ETS) for 2015-16 to replace an interim carbon tax to be introduced on 1 July 2012.

Initial indications are of a fixed carbon price the term of the interim carbon tax. The carbon price and proposed approach have yet to be defined by the Commonwealth Government.

The practicalities and impact of the carbon tax and Emissions Trading Scheme will need to be assessed by the Corporation once the specifics of the legislation are formally introduced.

## WATER SUSTAINABILITY

The Northern Territory Government's Territory 2030 Strategy and Climate Change Policy both contain targets for water sustainability and demand management:

- Reduce the amount of water that Territory households use by 20 per cent by 2015 and a further 10 per cent by 2020 compared to 2009 consumption levels.
- Ensure efficient use of water by business and industry.

Power and Water has identified a number of initiatives to reduce current water use towards the Territory 2030 Strategy targeted reduction in consumption. These initiatives include:

- Consumer education through campaigns and conservation rules;
- Rebates and retrofits for homes and in time business and industry;
- Improved metering to provide consumer information;
- Community water reuse; and
- Supply substitution where possible.

Power and Water will continue to investigate options and to engage collaboratively with other Northern Territory Government agencies to develop a consistent whole of government approach to attain the Territory 2030 Strategy targets.

Progress in reducing water consumption in the Northern Territory will assist in deferring the development of major new water sources of potentially a new dam for the Darwin region and alternative water resource options elsewhere in the Territory. Thus delaying the associated major capital expenditure required. Major capital investments on this scale need at least a 10-15 year lead time. Therefore demand management initiatives are important in limiting the annual water extraction from Darwin River Dam and the recommissioned Manton Dam to provide the time to develop a new major dam or other alternative water resources.

## DARWIN SEWERAGE TREATMENT

Power and Water hold five Wastewater Discharge Licenses (WDL's) in the Darwin Region that discharge to Darwin Harbour. Each WDL contains conditions specifying water quality discharge criteria objectives, monitoring and reporting requirements.

Following the publication of Darwin Harbour Report Cards by NRETAS, which graded water quality, and the

widespread beach closures during 2010 that raised both community and political awareness on the issue of wastewater quality entering Darwin Harbour, NRETAS requested Power and Water to surrender its existing WDL's and renegotiate new WDL's to facilitate application of the new Darwin Harbour Water Quality Objectives. These Objectives set out aspirational water quality targets for Darwin Harbour.

Power and Water is committed to progressively reducing the impact of wastewater discharging to Darwin Harbour over a 15-20 year time frame given the extent of investment required. The total project costs will be dependent on the level of treatment and extent of recycling.

Such a level of expenditure will require either additional Northern Territory Government funding, price rises or a combination of these. The risks to the Corporation are financial and in future may likely prompt political and regulatory pressure, requiring the works to be brought forward if Power and Water do not act to begin to improve the quality of wastewater discharged into the Darwin Harbour.

Climate change has the potential to impact Power and Water's provision of water and sewerage services. Increasing temperatures will likely change the demand characteristics for water and will increase evaporation adversely affecting available yields from water sources, particularly surface water sources.

## REGULATORY ENVIRONMENT CHANGES

### REGULATORY REVIEWS

In August 2009, the Northern Territory Government requested the Utilities Commission undertake a priority work program to increase the efficiency of Power and Water, improve customer standards of service and reliability, and where possible, align the Territory electricity industry with national electricity market practice.

The work program required the Commission to undertake a series of reviews under terms of reference approved by the Treasurer. The work program encompasses reviews of options for full retail contestability, retail price monitoring, electricity standards of service, incentive schemes, system planning and monitoring and the Power and Water Corporation capital program and asset management.

To date, reviews of Full Retail Contestability, Electricity Standards of Service, Customer Service Incentive Scheme, Power and Water Corporation Asset Management Capability and Retail Price Monitoring have been completed. The recommendations of the reviews are summarised below.

The Commission has three remaining reviews to complete under the work program. These include the review of Power and Water's Capital and Maintenance Program, and reviews of system planning and market operation, scheduled for completion in 2011.

Depending on the outcomes, compliance with the resulting regulatory changes may further affect the Corporation's resources, capital requirements and financial situation.

## FULL RETAIL CONTESTABILITY

The commencement of Full Retail Contestability occurred on 1 April 2010 which effectively removed the legislative barrier to competition.

However, without accompanying market reform, the prospect of significant market competition remains low and existing systems will be used for customer transfer and market settlements. Consequently, Power and Water will deploy minimal

resources commensurate with the expected low rates of customer churn. Should customer churn rates exceed expectations, the costs for Power and Water will be significantly higher.

## CUSTOMER SERVICE INCENTIVE SCHEME

A customer service incentive scheme, providing for rebates to customers where defined standards of service are not met by an electricity supplier is to be introduced from 1 July 2012.

## RETAIL PRICE MONITORING REGIME

A retail price monitoring regime requiring disclosure of costs and retail prices and reporting against associated benchmarks will be developed during 2011 for commencement on 1 January 2012.

## ELECTRICITY STANDARDS OF SERVICE

Work will continue in defining the electricity standards of service framework. This will require monitoring and reporting of electricity supplier standards of service against defined performance benchmarks. A staged implementation will occur from 2011 to 2015 as targets are able to be determined and to align with regulatory determination processes.

## ASSET MANAGEMENT CAPABILITY PROJECT

Power and Water will be required to undertake annual reporting, for the next three years, to the Treasurer in relation to progress with the implementation of the Asset Management Capability project and associated achievements.

## INCREASED DEMAND FOR SERVICES

Notwithstanding potential savings inherent in Territory 2030 and the Climate Change Policy, current projections of the demand for electricity, water and sewerage services may be understated.

First, the demand projections are based on the Australian Bureau of Statistics population data as well as Power and Water's historical operational information, for example consumption data and connections. Access Economics have projected the five-year average annual population growth as 1.7 per cent and average annual economic growth of 3.9 per cent for the five years to 2014-15. Both are in excess of the National figures, indicating the strong development expected in the Northern Territory. While this could result in higher revenue, it may also require bringing forward planned capital investment.

The Utilities Commission's Power System Review in 2011 identified potential annual electricity growth rates around 3.0 per cent for the Darwin-Katherine system, 2 per cent for Tennant Creek and 1.7 per cent Alice Springs. This demand analysis reflected the strong relationship that has existed between Gross State Product and demand growth, and current projections of a return to higher economic growth in the Northern Territory.

Second, in more recent years, extensive use of air conditioning has increased peak demand on the power network. Power and Water is currently investigating the use of improved forecasting algorithms and techniques to incorporate weather correction and econometric modelling.



## TERRITORY GROWTH TOWNS

As part of Working Future the Northern Territory Government defined 20 of the biggest and strategically placed remote communities as Territory Growth Towns and defined a strategy that will see 20 Indigenous communities transformed over time into Territory Growth Towns that:

- are properly planned and designed
- have services, buildings and facilities like any other country town
- benefit from targeted investment in infrastructure.

The Territory Growth Towns (TGT) are Ali Curung, Angurugu/Umbakumba, Borroloola, Daguragu/Kalkarindji, Elliott, Galiwin'ku, Gapuwiyak, Gunbalanya, Hermannsburg, Lajamanu, Maningrida, Milingimbi, Nguiu, Ngukurr, Numbulwar, Papunya, Ramingining, Umbakumba, Wadeye, Yirkala and Yuendumu.

The towns will be the regional "hub" and will have town planning and provide services to all people living in that region, where people from surrounding regions can attend schools, police station, court, health services, aged care and disability facilities. In order to have services like any other country town, Territory Growth Towns will need proper infrastructure – including water, sewerage and electricity.

The growth in water and electricity demand in the TGT's is difficult to estimate as it depends on the time required to implement the above which will result in additional government and commercial buildings as well as industry and housing. Some TGT's have experienced large increases in energy demand in the past few years where others have stayed stable. In addition to the growth, it is anticipated that new levels of service will be expected and defined. At this stage new levels of service have not been determined, consequently this SCI does not include funding allocation required to meet the new levels of service or the potential substantial growth in demand.

## INDIGENOUS ESSENTIAL SERVICES

The major policy initiatives of Closing the Gap on Indigenous Disadvantage by the Northern Territory Government, and the joint Commonwealth and Northern Territory Government's Strategic Indigenous Housing and Infrastructure Program will continue to significantly drive demand for essential services, with an increased focus on both the capacity and reliability measures of available services.

Indigenous communities across the Northern Territory are growing rapidly and significant investment is required to expand and replace aged electricity, water and sewerage infrastructure and bring assets up to a serviceable condition. Due to the step change in demand and the condition of infrastructure, current allocated funding is insufficient to meet the need. Additional expenditure for essential service infrastructure replacement and capacity expansion across Indigenous communities will be required over the next five years to meet a reasonable standard of service delivery, on top of existing programs and initiatives. This funding is currently not available, which could result in a decline of service in the medium term.

Neither the National Partnership Agreement (NPA) for Remote Indigenous Housing or Remote Service Delivery has a dedicated focus on remote infrastructure. It has been acknowledged that this is an essential part of Closing the Gap, however funding is not currently specifically allocated. The funding associated with the NPA for Remote Indigenous Housing is allocated for the essential service infrastructure to support housing in TGTs and is not sufficient to fund the required infrastructure upgrades.

IES has an agreement with the Department of Housing, Local Government and Regional Services for the delivery of essential services to remote communities and nominated outstations which will expire in 2013 during the five-year SCI period.

## CORPORATE RISK REGISTER

Power and Water recognise that risks are inherent in the provision of utility services. The Corporation's integrated Risk Management Framework aims to identify and manage these risks.

The 17 corporate risk categories each contain a number of individual risks that when combined give each category its overall risk rating. The individual risks, representing corporate, business unit, operational and project risks, are identified, monitored and reviewed on a regular basis.

No.	Description (Short)
1	Natural Disaster Management
2	Public Safety
3	Staff and Contractor Safety
4	Environmental
5	Water Quality/ Waste Management
6	Fuel Supply Management
7	Legal and Regulatory Compliance
8	Information Technology, SCADA and Communications
9	Project and Contract Management
10	Terrorism, Security and Vandalism
11	Capacity and Capability
12	Supply of Core Services
13	Financial Management
14	Corporate Image and Reputation
15	Competition
16	Stakeholders
17	Regulatory Relationships

## 7 CAPITAL EXPENDITURE

This section outlines Power and Water's Capital Investment Program and provides discussion on the Corporation's primary investment drivers and largest projects.

The validity of these projects is subject to the Capital Program Governance procedures and business case review. Projected capital expenditure by business unit is summarised in the table below.

The planned investment in essential assets continues to increase capital spend to:

- Ensure the continued reliability and security of services through asset refurbishment and renewal; and
- Accommodate the Territory's growth, including a substantial program of land release and associated infrastructure upgrades in Darwin and Alice Spring.

This increased infrastructure investment is a consequence of the previous under-investment in essential assets. Technical investigations continue to identify that the previous estimate of asset life was optimistic; resulting in the pressing need for refurbishment or replacement of key assets.

The capital profile has been smoothed through a review of priorities and a number of projects have been moved out due resource constraints or lack of material availability. Consequently, the change in both the amount and timing of capital investment has affected the cash flow resulting in the need to continue the debt-equity arrangements.

### GENERATION

The development of generation capability provides sufficient capacity to reduce the risk to the overall security and reliability of supply to enable essential life-extension work to be accomplished on the six oldest generation sets at the Channel Island Power Station. The implementation of the 2010 Generation investment strategy is progressing towards:

1. Completion of the two generation units providing additional coverage and security of supply for the Channel Island Power Station refurbishment;
2. Construct, install and commission a third generating set at Weddell Power Station;
3. Refurbishment work to extend the life of the six oldest generation units at the CIPS; and
4. Continue the acquisition and installation of generation units for the Owen Spring Power Station during the latter period for this SCI.

The planned capital works will increase reliability and generation capacity, meet increased demand and reduce fuel costs through installation of more fuel efficient sets. Works in the Territory's major power stations during this three year SCI period include:

- Works at Channel Island Power Station:
  - Commission Sets 8 and 9 to provide additional system security during CIPS life extension works and against future peak loads.
  - Life-extension works to generation Sets 1 to 6 which are nearing their end-of-life. The project will increase the overall efficiency and reliability of generation units into the future, as well as obtaining the full value from the available life in the units at least cost.
  - Hot section replacement and refurbishment of generation Sets 7, 8 and 9.
- Works at Weddell Power Station:
  - The supply and installation of generation Set 3.
  - Hot section engine replacement on generation Sets 1 and 2.
- The augmentation of Tennant Creek Power Station provides an opportunity to reduce operating costs through lower fuel consumption, maintain the security and reliability of supply, meet the projected load growth and enable the retirement of aged plant.
- Installation of a replacement generation set and refurbishment of the remaining generation set at Berrimah Power Station to provide reliable, safe and cyclone secure capacity to supply emergency services.

#### 2011-12 SCI CAPITAL INVESTMENT PROGRAM (POWER AND WATER CORPORATION)

\$M	2010-11 FORECAST	2011-12 BUDGET	2012-13 PROJECTION	2013-14 PROJECTION
<b>Total (excluding Remote Operations)</b>	<b>328.3</b>	<b>289.6</b>	<b>277.5</b>	<b>241.4</b>
Remote Operations	38.7	42.3	19.2	16.8
<b>Total (including Remote Operations)</b>	<b>367.0</b>	<b>331.9</b>	<b>296.7</b>	<b>258.2</b>

- The engine in generation Set 4 (Titan) has been removed from Ron Goodin Power Station for installation in the Katherine Power Station. It will be due for overhaul at 30,000 hours of operation when a planned engine upgrade will be done. Life extension works are due on the Katherine Power Station's Mars Sets 1, 2 and 3 which will result in increased output and improve supply reliability.

## POWER NETWORKS

Power Networks' capital investments reflect the progress and continued application of resources to remediate the zone substations in response to the Mervyn Davies Inquiry's recommendations, upgrading capacity to complement Generation requirements, and meeting the Territory's growth in demand.

The Remedial Asset Management Project identified that zone substation assets were in poor condition with remediation being impossible. Fundamental to improving the condition and performance of the power network infrastructure is the need to recondition the zone substations located at Snell Street, City, Leanyer and McMinns. Additionally, to meet the demand growth augmentation of Frances Bay and construction of Norris Bell Zone Substation is necessary. The continuing investigation of asset condition will confirm the scheduling of refurbishment work and quantify if further investment is necessary to ensure the security and reliability of services.

The planned capital works for the Territory's power networks will provide better long-term engineering solutions to increase supply security and reliability and meet increased demand. They include:

- Completion of the new Snell St Zone Substation will occur in 2010-12, and includes construction of a conventional outdoor 66/11 kV zone substation with three transformers.
- The Darwin City Zone Substation will be refurbished in 2011-14, by constructing a building to house new 11kV switchboards, replacing all 66kV circuit breakers and one zone transformer. As an essential site to provide the CBD with power, significant equipment failure at this substation would lead to prolonged supply interruptions in Darwin's CBD.
- Construction of the indoor 66/11 kV Lee Point (Leanyer) Zone Substation, including a dual 66 kV circuit from the existing Berrimah to Casuarina 66 kV transmission circuit. The construction of this zone substation will also provide an alternative source of supply to areas currently supplied from the Casuarina Zone Substation. It will alleviate demand loading for Casuarina Zone Substation and allows possible contingency loading at Berrimah, Snell and City zone substations.
- The replacement of the McMinns Zone Substation aims to improve the supply reliability of electricity to the rural areas near Palmerston. The work includes installation of two new power transformers, new 66kV outdoor equipment and a new 22kV indoor metal clad switchboard, along with the associated protection and control equipment.
- The Frances Bay Zone Substation aims to ensure that a secure supply of electricity is available to the Darwin CBD at all times. Originally only one 66/11kV transformer was installed with one 66kV transformer line from City Zone Substation. A second transformer is to be installed as well as a second 66kV transmission line. In addition, to complete the substantial refurbishment required in the City Zone Substation, the installation of the second transformer in Frances Bay will enable works to be completed in City Zone Substation without the disruption of supply to customers.
- The Norris Bell Zone Substation project in 2012-2015 involves the construction of a new substation with two 66kV lines, two 66/22kV 15MVA zone transformers and a third 66/11kV transformer at Owen Springs Power Station. The projected benefits are an improved security of power export from Owen Springs Power Station; a new zone substation to meet the load growth south of the Gap; and eliminate the risk of putting all of the 66kV system through Lovegrove.
- The construction of a Darwin 132/66kV terminal substation and transmission lines in the latter part of this SCI is the precursor to implementing a second transmission route from the Channel Island Power Station. This development will ensure the future proofing of the transmission network providing supply security and capacity to meet the demand growth in the Darwin region.

## WATER SERVICES

Water Services capital investment is designed to meet the forecast increased demand from planned infrastructure development and population growth and comply with environmental regulations.

Essential water projects for the three year SCI period include:

- The continued work to recommission Manton Dam to meet requirements for additional capacity and diversity of emergency water supplies in the Darwin, Palmerston and rural area. The project, commenced in 2009-10 includes an ongoing water quality study, construction of a new intake tower, pumping station and transmission main.
- The project to raise the full supply level at Darwin River Dam was finished in 2010-11. The construction of a new pump station is required within the current SCI investment period to meet future peak demand pumping requirements.
- The development of a major water treatment plant for the Darwin region water supply will support the return to service of Manton Dam, allow Darwin River Dam's total capacity to be more fully utilised and provide a significant new barrier to address existing water quality risks.

- Palmerston augmentation works include new pumping and transmission infrastructure and new water tanks service the significant growth in Palmerston region.
- Channel Island watermain upgrades are associated with the development of Middle Arm and to improve the security of supply to Channel Island Power Station.
- The Asbestos Cement Watermain Replacement is a major project aims to reduce the frequency of failures associated with asbestos cement water mains.

## SEWERAGE SERVICES

Sewerage capital investment is designed to meet forecast increased demand from development and population growth and to comply with environmental regulations.

Essential sewerage projects for the three year SCI period include:

- The Larrakeyah Outfall Closure Plan involves the diversion of sewage from Larrakeyah and the Darwin CBD to the Ludmilla Wastewater Treatment Plant (LWWTP) to allow the closure of the Larrakeyah outfall, in accordance with Power and Water's wastewater discharge licence requirements. Under this project, the capacity of LWWTP will be upgraded for the diverted catchment and to support growth to 2030, the effluent rising main to East Point will be duplicated, and the East Point outfall will be significantly extended to improve dispersion of treated wastewater.
- Upgrade of the Leanyer/Sanderson Wastewater Treatment Plant (LSWWTP) involves the upgrade of treatment and disposal infrastructure at the LSWWTP.

NRETAS has reported the water quality in Buffalo Creek is significantly impaired. A number of short term improvement projects are either completed or programmed and a major study into treatment and disposal options is underway.

- The sewer relining program targets the continued lining of sewers in the Northern Territory that have been identified to be in poor condition with the risk of collapse or that have been strategically chosen to reduce water ingress into the sewer system. This ongoing project has several objectives including increasing asset life, improved integrity of the sewerage system, producing a finished sewer with improved flow characteristics, better corrosion resistance to gas attack in sewers and reduced infiltration through joints.
- The Borroloola Sewerage Scheme was initiated for the design and construction of a fully reticulated sewerage system as the existing on-lot systems are not functioning adequately and present significant health risks.
- The Katherine Wastewater Treatment Plant upgrade project aims to meet current and projected loads and to reduce effluent discharge into the Katherine River. This work has been triggered by wastewater discharge license conditions requiring a reduction in effluent discharged to the environment.

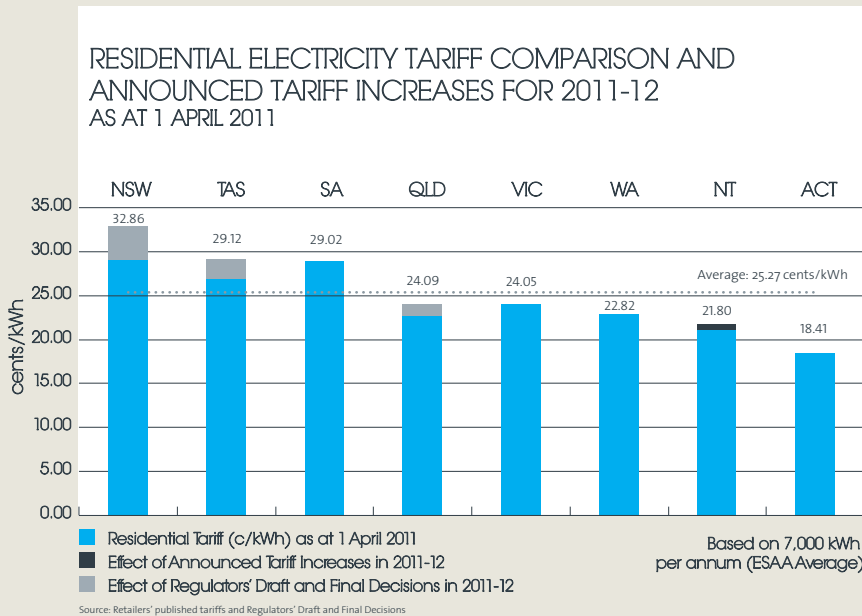
## OTHER MAJOR INVESTMENT

Other major capital investment is aimed at improving the quality and efficiency of the Corporations' business and supporting core business units.

Major investment works planned over the life of this SCI include:

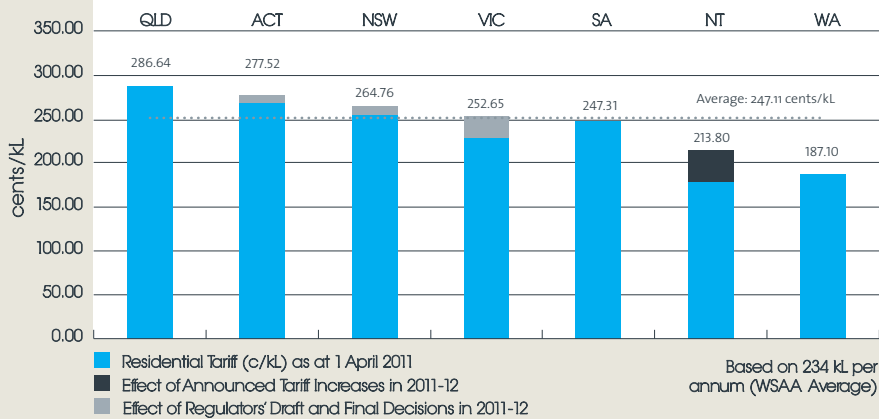
- Package 1 and Package 2 of the Ben Hammond Complex redevelopment will include demolition, construction, refurbishment, civil works, landscaping and road works. The upgrade will meet current and future operational needs and improve safety. This will also include the removal of asbestos from the site.
- Augmentation of corporate support facilities in Alice Springs will include an upgrade to office accommodation, workshop facilities, warehouse and other storage facilities, security, car parking, training facilities and site amenities to meet building codes.
- The Asset Management Capability project, which aims to deliver better asset management processes and systems, will go-live in late 2011. This completes Phase 1 which included business process improvement, change management, data quality, and implementation of the upgraded Asset Management and Geographical Information Systems. Phase 2 will drive the delivery of the benefits with some additional functionality but primarily through adoption and ownership by the operational business units.
- The upgrade of the Victoria Highway complex in Katherine includes general and major site upgrades. It will meet current and future operational needs, improve safety and contribute to increased staff satisfaction.

# APPENDIX: COMPARISON OF AUSTRALIAN UTILITY TARIFFS

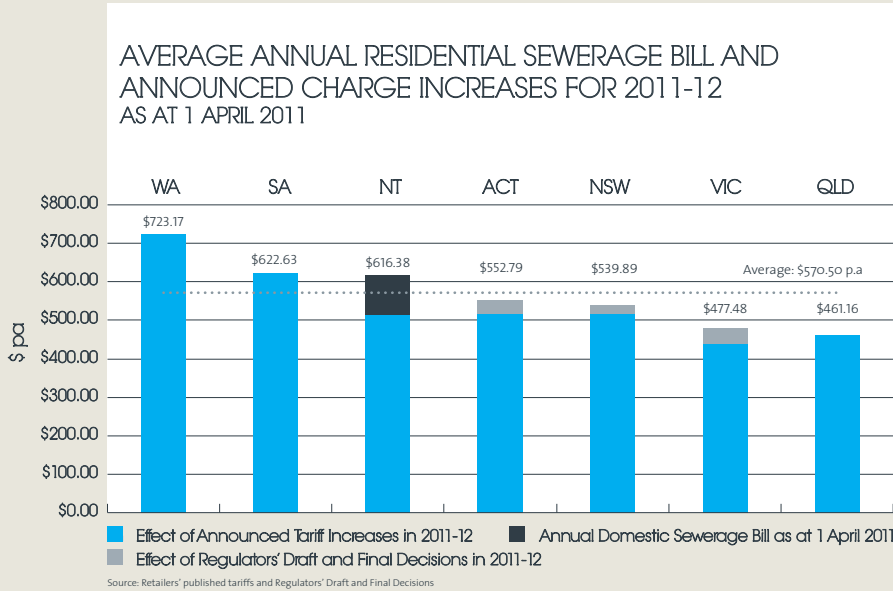


- Tariff comparisons are based on average annual consumption of 7,000 kWh (ESAA average).
- Tariffs include a variable consumption charge and fixed daily charge component.
- The tariff comparisons are as at 1 April 2011, and incorporate tariff increases announced by utilities and Regulators' Draft and Final Decisions. The chart above reflects expected residential electricity tariffs at 1 July 2011.
- From 1 July 2011 residential electricity tariffs in the Northern Territory will increase by 2.8 per cent. The increases forecast in other jurisdictions based on Regulators' Draft Decisions may differ from the Final Decision or may not be fully passed through to customers. In addition, a number of States are likely to announce tariff increases as part of their forthcoming 2011-12 Budget announcements.

## RESIDENTIAL WATER TARIFF COMPARISON AND ANNOUNCED TARIFF INCREASES FOR 2011-12 AS AT 1 APRIL 2011



- Tariff comparisons are based on average annual consumption of 234 kL (WSAA average). Consumption may vary in each jurisdiction from this derived average as a result of water restriction policies.
- Tariffs include a variable consumption charge and fixed daily charge component.
- The tariff comparisons are as at 1 April 2011, and incorporate tariff increases announced by utilities and Regulators' Draft and Final Decisions. The chart above reflects the expected residential water tariff at 1 July 2011.
- From 1 July 2011 residential water tariffs in the Northern Territory will increase by 20 per cent. The increases forecast in other jurisdictions based on Regulators' Draft Decisions may differ from the Final Decision or may not be fully passed through to customers. In addition, a number of States are likely to announce tariff increases as part of their forthcoming 2011-12 Budget announcements.



- The tariff comparisons are as at 1 April 2011, and incorporate tariff increases announced by utilities and Regulators' Draft and Final Decisions. The chart above shows expected annual residential sewerage bills at 1 July 2011.
- From 1 July 2011 residential sewerage tariffs in the Northern Territory will increase by 20 per cent. The increases forecast in other jurisdictions based on Regulators' Draft Decisions may differ from the Final Decision or may not be fully passed through to customers. In addition, a number of States are likely to announce tariff increases as part of their forthcoming 2011-12 Budget announcements.

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