



Power and Water Corporation

Statement of Corporate Intent 2013-14

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Executive Summary

The Power and Water Corporation prepares an annual Statement of Corporate Intent (SCI) which sets out its financial plans and projections for 5 years including the Budget year. The 2013-14 SCI shows a substantially improved outlook to that anticipated in 2012.

The 2012-13 SCI showed virtually no change in revenue over the 5 year SCI period while operating and capital costs were increasing. Tariffs were insufficient to cover costs and Power and Water was not receiving a return on its assets. As a result, Power and Water's financial position was deteriorating and contributing significantly to the worsening of the Territory's overall financial position.

Power and Water has been working with the Northern Territory Government through the Shareholding Minister to identify ways to improve Power and Water's financial outlook while not compromising its capacity to continue to provide safe and reliable utility services to its customers.

The Government has approved tariff increases that are consistent with cost reflective principles, to apply during the period of the SCI. Power and Water has identified efficiency measures to reduce its operating costs and has also revised its capital program to better align enhancement and augmentation with demand.

As a consequence the 2013-14 SCI shows a substantially improved financial position and outlook when compared to the 2012-13 SCI. Over the 5 years from 2012-13 to 2016-17:

- revenues have increased by \$164.7 million
- operating costs have decreased by \$180.1 million
- borrowings have decreased by \$818.0 million
- net debt is lower by \$681.7 million

During the SCI period, Power and Water has committed to continue to improve its business support systems, notably through enhancements to its asset management system supported by end to end process improvements, increased clarity in responsibility and accountability throughout the organisation and importantly greater support to its regional operations.

1 Introduction

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

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

This SCI provides information for five financial years including the current financial year, and includes 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 three years.

Corporation's Objectives

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

- Deliver electricity, water and sewerage services to the Northern Territory, safely, reliably and efficiently; and
- In doing so:
 - Operate at least as efficiently as any comparable business; and
 - Maximise the sustainable return to the Northern Territory on its investment in Power and Water.

Scope and Nature of Activities

Power and Water provides power, water and sewerage services to customers throughout the Northern Territory. In remote areas, services are provided by Indigenous Essential Services Pty Ltd (IES), a subsidiary of Power and Water.

Services that Power and Water provides are either regulated or, in many urban areas, open to competition, as follows:

- Electricity Network services are regulated by the Utilities Commission (UC).
- Electricity Generation services are open to competition.
- Retail electricity services are contestable and open to competition.
- Water and Sewerage services are provided under monopoly licences.

In order to deliver its services, Power and Water requires fit for purpose, efficient and well maintained assets. Power and Water is an asset management business – assets are constructed, acquired, deployed, managed and operated in order to deliver these essential services in accordance with customer expectations and statutory or regulatory requirements, at the most efficient cost achievable.

Power and Water applies industry standard asset management practices and processes and has recently upgraded its asset management IT systems using the Maximo product suite, which will facilitate enhanced decision making and optimisation of processes. The first stage of this new system has been implemented and further stages of implementation will occur during the SCI period to deliver improved operating and asset management outcomes.

More than 40 per cent of Power and Water's costs are related to energy. Whilst energy costs can be minimised through efficient use of plant, demand volume and contracted price leaves little scope to influence this cost. For the five-year SCI period the majority of energy produced will be delivered using gas supplied for electricity generation, purchased through long term contracts from Eni Australia BV (Eni) which operates the Blacktip facility southwest of Darwin.

Indigenous Essential Services

(IES is funded separately from Power and Water's commercial operations through an agreement with the Northern Territory Government for the reliable and equitable delivery of essential services to 20 Territory towns, 52 remote communities and nominated outstations. The operation of IES by Power and Water improves scale of efficiencies and ensures that the technical expertise of Power and Water is available to all customers across the Territory.

IES plans the daily work schedules as well as the major projects and longer term strategies from key locations in Darwin, Katherine, Tennant Creek and Alice Springs. Services are delivered in the communities on a daily basis by local Essential Service Operators (ESOs) and by shire councils, small local contractors and Indigenous organisations.

2 Factors Affecting the 2013-14 SCI

Power and Water has been included in the Territory Government's wide ranging initiatives to improve the overall financial position of the Northern Territory through the reduction of annual deficit and accumulated debt levels. Power and Water in conjunction with other agencies within the Northern Territory public sector has completed a number of internal reviews to ensure that all possible efficiencies are identified so that Power and Water uses its existing and planned resources effectively while maintaining acceptable service delivery to the Northern Territory community.

The initiatives included in both the November 2012 Mini Budget and the 2013-14 SCI will deliver a substantial improvement in Power and Water's finances through:

- Improved revenues from increases in gazetted tariffs as follows:
 - 20 per cent increase in electricity from 1 January 2013 and further 5 per cent increases in January 2014 and January 2015;
 - 30 per cent increase in water from 1 January 2013 and further 5 per cent increases in January 2014 and January 2015; and
 - 15 per cent increase in sewerage from 1 January 2013 and further 5 per cent increases in January 2014 and January 2015.
- Reduced operating expenses compared to the 2012-13 SCI of \$180.1 million to be achieved by a range of savings measures including improved operating procedures in all business units, a reduction in corporate costs, improved procurement and inventory practices and improved business systems to support a streamlined operating environment.
- A more focussed capital program that better aligns new investment with future demand growth.

In implementing these strategies Power and Water remains committed to its long standing objectives of:

- A safe workplace that supports the further development of its employees and their capabilities.
- Environmental sustainability through a continuous focus on:
 - efficient use of input resources in all business units;
 - appropriate demand management strategies in all business units;
 - reduced emissions through efficient power generation; and
 - more efficient water usage through better demand management tools, reduced wastage and the use of new smart technologies.

3 Assumptions Underlying the 2013-14 SCI

The key assumptions used to prepare the financial projections included in this SCI are explained below. These assumptions take into account the expected business environment and together with the savings measures already outlined, provide the basis of the development of the SCI. The assumptions are utilised in power, water and sewerage demand and sales, gas costs, the generation energy budget and financial models.

Weather:

- The weather forecast for the 2013-2014 SCI has been assumed to be in line with the 100 year average.

Natural growth:

- Electricity: 2.15% (Darwin Katherine Interconnected System)
- Water: 0.92% (Darwin, Katherine), 0% (Tennant Creek, Alice Springs)

Electricity Price Elasticity:

- 2013-2014: -5.44%
- Outer years: 0%

Water Price Elasticity:

- 2013-2014: -3.75%
- Outer years: 0%

The price elasticity assumptions are associated with tariff increases applying from 1 January 2013.

The assumptions also include the effect of major new projects where agreements are in place for supply. In respect of the INPEX Ichthys LNG project this includes the requirement for power and water services at the construction village and from year 2 of the LNG plant construction.

4 Major Risks to Delivering 2013-14 SCI Outcomes

Weather Variability

Power and Water tariffs for electricity and water are mostly volume based, therefore variations in weather each year have the potential to materially impact actual revenues compared to forecast revenues. Further, extended periods of below average annual rainfall can materially impact water storage.

Risk	Mitigation
Material reduction in revenue.	SCI assumptions based on long term averages. Positive or negative variations which may occur in particular years are expected to average out over the SCI period.
An extended period of below average rainfall will reduce available water supply and storage.	Timely introduction of initiatives to manage water demand

Sewerage Discharge Licences

Sewerage discharge licences expired in October 2011 for Darwin and Katherine areas and in December 2011 for Alice Springs. The terms and conditions for renewal are being negotiated but the potential inclusion of tighter standards will require additional capital and operating expenditure to ensure compliance.

Risk	Mitigation
Requirement for capital expenditure in excess of SCI projections.	Negotiations for licence renewals on the basis that licence conditions are appropriate and all stakeholders are aware of the link between standards and new capital investments requirements.

Cost Pass Through

Unanticipated future changes to regulatory and taxation arrangements imposed by other governments, such as the carbon tax or renewable energy certificates, have the potential to increase Power and Water's cost base beyond those projected in the SCI. Cost pass through provisions in Power and Water's regulatory arrangements may not be possible or sufficient to enable recovery of such costs.

Risk	Mitigation
Inability to pass through additional costs to customers.	Scrutiny and negotiation of cost pass through provisions to ensure financial consequences are fully appreciated.

5 Financial Projections

The SCI requires the preparation and analysis of the financial performance and fiscal position of Power and Water's commercial businesses. The results discussed in this section do not include the performance of the subsidiary IES.

The financial position presented in the 2013-14 SCI is markedly different from that presented in the 2012-13 SCI. Following its election in August 2012, the Northern Territory Government put in place a wide range of initiatives intended to substantially improve the Territory's future fiscal outlook by appropriately and sustainably reducing operating expenditure, increasing revenue and re-aligning capital expenditure to better reflect demand and financial capacity.

Power and Water, as a Government Owned Corporation, has a direct influence on the Territory's overall fiscal position and with the support and direction of the Government has contributed to the whole of government improvement measures in a number of ways.

Power and Water's main source of revenue to meet its operating costs and contribute towards its capital requirements is from utility tariff revenue. Utility tariffs for water and sewerage and for small to medium sized electricity customers are determined by the Government through gazetted tariffs. The previous pricing framework had been to set tariffs to be financially sustainable over time. However, the substantial increase in operating costs and capital investment over the last 5 years meant tariffs were well below being cost reflective and that the objective of fiscal sustainability was unlikely to be met. Power and Water's resultant increasing deficit and debt levels were a significant and growing influence on the Territory's overall fiscal position.

The Government determined that Power and Water would work towards commercial sustainability through tariffs that were more cost reflective, a reduction in operating costs to be achieved through efficiency improvements and a more effectively managed capital program. The key changes included in the 2013-14 SCI compared with the 2012-13 SCI are:

- Improved revenues from increases in gazetted tariffs of:
 - 20 per cent in electricity from 1 January 2013, and 5 per cent in January 2014 and January 2015;
 - 30 percent increase in water from 1 January 2013 and 5 per cent in January 2014 and January 2015; and
 - 15 per cent in sewerage from 1 January 2013 and 5 per cent increases in January 2014 and January 2015.
- Reduced operating expenses compared to the 2012-13 SCI of \$180.1 million to be achieved by a range of savings measures including improved operating procedures in all business units, a reduction in corporate costs, improved procurement and inventory practices and improved business systems to support a streamlined operating environment.
- A more focussed and affordable capital program that better aligns new investment with future demand growth.

The key financial results for the period of this SCI to 2016-17 are summarised in Figure 5.1 below. The asset data in this table is presented on the basis of replacement cost which is the usual approach adopted by commercial and business organisations. Previously, deemed cost was used for asset valuation and did not adequately reflect operating requirements and was subject to significant volatility through the application of the recoverable amounts test.

Figure 5.1: Summary of 2013-14 SCI Financial Results

(i)	2012-13 Budget (ii)	2012-13 Forecast	2013-14 Budget	2014-15 Projection	2015-16 Projection	2016-17 Projection	SCI Total
Revenue from Services (\$M) (iii)	602.6	619.9	672.3	700.5	724.8	740.5	3,457.90
Operating Costs (\$M)	491.4	496.3	486.4	490.6	500.3	514.3	2,488.00
EBITDA (\$M)	154.5	165.2	229.4	254.5	270.3	273.1	1,192.50
NPAT (\$M)	-68	-34	7.6	15.8	17.8	10.9	18.1
Capital Investment (\$M)	293.6	235.3	217.3	180.9	173	168.5	974.9
Net Borrowings (\$M)	254	123	80.8	76.6	68.4	69	417.8
Net Debt (\$M)	1,375.30	1,292.70	1,380.40	1,458.00	1,526.40	1,595.40	
Gearing (%)	40	40	41	40	40	39	
Interest cover (times)	0.2	0.4	1.1	1.2	1.3	1.2	
Return on Total Assets (%)	0.5	0.90	2.80	3.10	3.10	2.80	

(i) This table has been prepared on the basis of replacement cost methodology for PWC assets

(ii) The data for 2012-13 Budget has been backcast to ensure consistency of accounting treatment in respect of assets and effect of carbon tax on operating costs and revenue

(iii) Excludes gas revenue, capital contributions, gifted assets, interest revenue and other revenue

For the 5 years from 2012-13 to 2016-17:

- operating revenues in the 2013-14 SCI are \$3,457.9 million, an increase of \$164.7 million compared to the 2012-13 SCI
- operating costs in the 2013-14 SCI are \$2,488.0 million, a decrease of \$180.1 million compared to the 2012-13 SCI
- net borrowings have reduced by \$818.0 million compared to the 2012-13 SCI.

Figure 5.2 demonstrates the use of cash generated from operations to fund interest payments on borrowings and the residual available for capital expenditure. Additional borrowings are required to fund the balance of capital expenditure. While this results in higher net debt over the SCI period of \$1,595.4 million, this is \$681.7 million lower (shown in Figure 5.3 below) than shown in the 2012-13 SCI. This large reduction in borrowings reflects the effect of increased tariffs, efficiency programs to reduce costs and a more targeted capital program of works.

Figure 5.2: Use of Cash from Operations, Additional Borrowings

	2012-13	2013-14	2014-15	2015-16	2016-17	SCI
	Forecast	Budget	Projection	Projection	Projection	Total
	\$M	\$M	\$M	\$M	\$M	\$M
Cash from Operations (excluding interest)	127.1	216.3	196.9	206.0	207.5	953.8
Utilised to fund:						
Interest payments	80.6	86.8	92.6	97.4	102.1	459.4
Capital expenditure	235.3	217.3	180.9	173.0	168.5	974.9
Dividend payments			0.9	4.0	6.0	10.9
Surplus/(Deficit)	(188.7)	(87.8)	(77.5)	(68.4)	(69.0)	(491.5)
Additional Borrowings Required	123.0	80.8	76.6	68.4	69.0	417.8
Cash balances utilised	65.8	7.0	0.9			73.6
Net Debt	1,292.7	1,380.4	1,458.0	1,526.4	1,595.4	

Figure 5.3: Funding Comparison between 2013-14 and 2012-13 SCI

	2012-13	2013-14	2014-15	2015-16	2016-17	SCI Total
	\$M	\$M	\$M	\$M	\$M	\$M
Financing Required						
2013-14 SCI	123.0	80.8	76.6	68.4	69.0	417.8
2012-13 SCI	252.0	227.8	202.6	228.4	325.0	1,235.8
Improvement	129.0	147.0	126.0	160.0	256.0	818.0
Net Debt						
2013-14 SCI	1,292.7	1,380.4	1,458.0	1,526.4	1,595.4	
2012-13 SCI	1,375.3	1,520.7	1,723.1	1,952.0	2,277.1	
Improvement in net debt	82.6	140.3	265.1	425.6	681.7	

Capital Investment Program

Power and Water's capital investment program has been reviewed in detail to better align to match capital investment with growth requirements. Some projects have been brought forward but a number of projects have been deferred where further consideration of current capacity and future demand has indicated that revised timing is possible.

Figure 5.4 below shows the summary of capital programs by business unit.

Figure 5.4: Capital Investment Plan

	2012-13 Forecast	2013-14 Budget	2014-15 Projection	2015-16 Projection	2016-17 Projection	SCI Total
	\$M	\$M	\$M	\$M	\$M	\$M
Generation	40.3	35.0	34.6	35.5	34.5	179.9
Power Networks	111.5	90.5	63.7	49.8	65.3	380.8
Water Services	66.7	72.5	66.5	73.7	62.6	342.0
Corporate	16.8	19.3	16.0	14.0	6.1	72.2
Total	235.3	217.3	180.8	173.0	168.5	974.9

6 Key Performance Indicators (KPIs)

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 Power and Water's commitment to continuous improvement.

Service (customer) outcomes

Strategic Objective	Manage operations and assets effectively to reliably deliver the required standards of services				
Measure	2012-13 Target	2013-14 Target	2014-15 Target	2015-16 Target	2016-17 Target
SAIDI¹ Networks duration interruption (mins)					
Darwin	220	220	220	220	TBD
Katherine	401	401	401	401	TBD
Tennant Creek	411	411	411	411	TBD
Alice Springs	108	108	108	108	TBD
SAIFI² Networks frequency interruptions					
Darwin	4.2	4.2	4.2	4.2	TBD
Katherine	9.6	9.6	9.6	9.6	TBD
Tennant Creek	9.8	9.8	9.8	9.8	TBD
Alice Springs	2.9	2.9	2.9	2.9	TBD
Water main breaks per 100km Darwin and Alice Springs	40	35	30	30	30
Sewerage chokes and blockages per 100km					
Darwin	29	28	27	26	25
Alice Springs	35	30	27	26	25
Water Quality complaints per 1,000 properties Darwin and Alice Springs	3	3	3	3	3
Darwin Generation EAF³ (%)	92	92	92	92	92
Alice Springs Generation EAF (%)	92	92	92	92	92
Darwin Generation EFOF⁴ (%)	2.0	2.0	2.0	2.0	2.0
Alice Springs Generation EFOF (%)	2.0	2.0	2.0	2.0	2.0

¹ SAIDI: Reflects outcome of UC's Standards of Service Review to report performance for periods 2011-12 to 2013-14 to establish targets for average distribution network reliability performance; with the setting of targets from 2014-15 onwards concurrent with Networks Regulatory Reset Review.

² SAIFI: Reflects outcome of UC's Standards of Service Review to report performance for periods 2011-12 to 2013-14 to establish targets for average distribution network reliability performance; with the setting of targets from 2014-15 onwards concurrent with Networks Regulatory Reset Review.

³ Equivalent availability factor measures plant capability for energy generation (MWh max minus MWh loss x100)/MWh max)

⁴ Equivalent forced outage factor measures percentage of energy lost due to all forced outages. (All MWh losses forced & partial x 100 / MWh max)

Our people

Strategic Objective	Safe workplace				
Measure	2012-13 Target	2013-14 Target	2014-15 Target	2015-16 Target	2016-17 Target
Lost time injuries ⁵	<4	<4	<4	<4	<4
Number of incidents reported in GRACE ⁶ (%)	+22	+10	+10	+10	+10
Strategic Objective	Skilled, capable and competent workforce. Achievement oriented culture				
Staff Satisfaction Index ⁷ (%)	81	82	82	83	83

Environmentally Sustainable

Strategic Objective	Meet environmental obligations commercially				
Measure	2012-13 Target	2013-14 Target	2014-15 Target	2015-16 Target	2016-17 Target
Emission intensity kg (CO ₂ -e / MWh) sent out combined major and minor power stations	566	569	562	548	546
Water demand (kL / household)					
Darwin	455	427	418	405	393
Alice Springs	536	507	441	430	426
Real water losses (L / service connection / day)					
Darwin and Alice Springs	300	270	220	180	120

Customer service

Strategic Objective	Enhance engagement with customers, interest groups				
Measure	2012-13 Target	2013-14 Target	2014-15 Target	2015-16 Target	2016-17 Target
Average call response time ⁸ (%)	63	63	63	TBD	TBD
Customer Satisfaction Index: Domestic & Commercial ⁹ (%)	80	80	80	80	80
New connections in CBD and urban areas within 5 working days ¹⁰ (%)	90	90	90	TBD	TBD

⁵ In accordance with the Safety Incentive Scheme contained in the 2010-2013 Enterprise Agreement.

⁶ Increased reporting of all incidents in GRACE (hazards, near misses and injuries.) 10% improvement on previous year.

⁷ 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 of the Corporation's staff and is based on number of survey respondents.

⁸ Call Response: Percentage of calls answered within 30 seconds reflecting the outcome of UC's Standards of Service Review to report performance.

⁹ Percentage of customers that rate their overall satisfaction with the Corporation's services as good or better. Covers major centres (including Darwin rural) based on a random sample of total customer population.

¹⁰ New Connections: Reflects outcome of UC's Standards of Service Review to report performance for periods 2011-12 to 2013-14 to establish targets for average distribution network reliability performance; with the setting of targets from 2014-15 onwards concurrent with Networks Regulatory Reset Review.