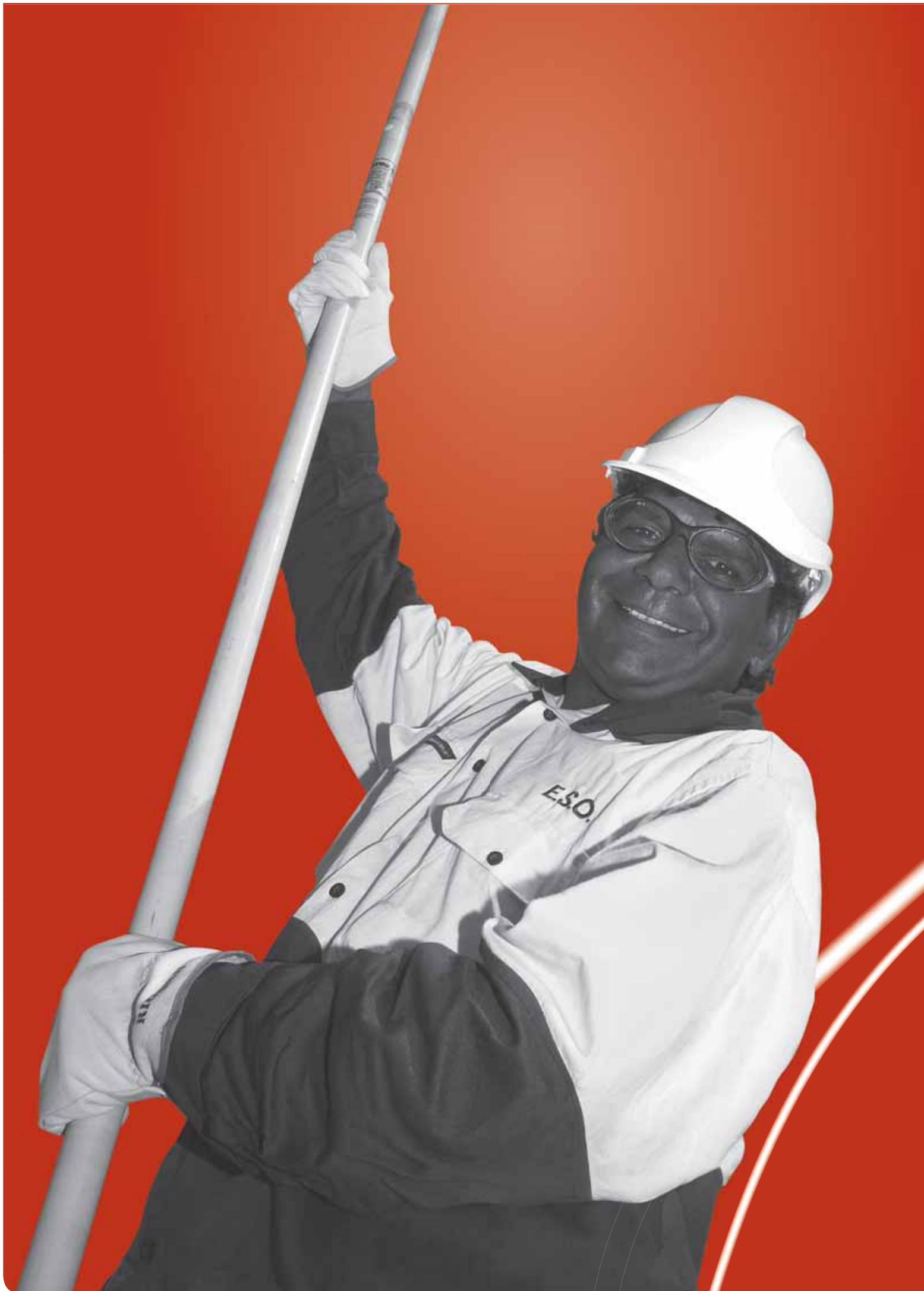




INDIGENOUS ESSENTIAL SERVICES PTY LTD

Annual Report

2007



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COVER IMAGE

LEFT:
DARREN JOHNSON

CENTRE:
IAN "DEANO" YOUNG

RIGHT:
ALLEY GOREY

1. Chairman's and Managing Director's Report

Power and Water Corporation, and its predecessor entities, have provided essential electricity, water and sanitation services to Indigenous communities for more than 20 years.

The number of Indigenous people living in remote communities has grown substantially since self-government as has the number of both larger and outstation (or homeland) communities.

In 2003, Power and Water Corporation established Indigenous Essential Services Pty Ltd, a not-for-profit entity which holds the assets and is responsible for the delivery of essential services to Indigenous communities.

Indigenous Essential Services Pty Ltd has a five-year (2005-2006 to 2009-2010) agreement with the Northern Territory Government; through the Department of Planning and Infrastructure (DPI) as its agent. The agreement has an option for an extension of five years.

It was a time of change for remote Indigenous communities during the 2006-2007 period.

The Northern Territory Government announced on 30 January 2007 that a new local government structure would be implemented consisting of four municipal councils and nine shire councils.

The Northern Territory Government announced a commitment to an additional \$100 million over five years to provide additional housing in Indigenous communities and sweeping changes with *Territory Housing* to assume responsibility for Indigenous housing. Increased funding commitments for housing from the Australian Government are expected to follow.

On 21 June 2007 the Prime Minister announced an Australian Government intervention in Indigenous communities in the Northern Territory involving Commonwealth legislation, which includes a five-year lease by the Australian Government of the 72 Indigenous communities serviced by Indigenous Essential Services.

We commend this annual report to you and congratulate the staff involved in delivering essential services to Indigenous communities across the Northern Territory; a challenging but highly rewarding achievement.



Neil Phillip

Neil Phillip
CHAIRMAN



Andrew Macrides

Andrew Macrides
MANAGING DIRECTOR

2. Our Profile

Power and Water Corporation, and its predecessor entities, have a long history in providing essential services to Indigenous communities throughout the Northern Territory since self-government on 1 July 1978.

Power and Water has continuously provided essential services to Indigenous communities in the 20 years since it was established on 1 July 1987. Over that time, the organisation has built strong and positive relationships with Indigenous people, communities, Indigenous organisations, land councils, contractors and suppliers.

This critical role extends from the agreement at self-government of the Northern Territory for the Northern Territory Government to assume responsibility for larger Indigenous communities and the Australian Government to retain responsibility for outstations or homeland communities.

The Indigenous population living in remote communities has grown substantially and the number of both larger and outstation communities has increased since self-government.

There are now more than 600 outstation communities across the Northern Territory. Power and Water now services 72 remote Indigenous communities and 33 outstations (through arrangements between the Northern Territory and Australian Governments).

Indigenous Essential Services (IES) was established in 2003 as a wholly owned subsidiary of the Power and Water Corporation, and is committed to delivering sustainable, water supply, sanitation and energy solutions to remote Indigenous communities throughout the Northern Territory.

This subsidiary structure allows the clear identification of the costs and risks of providing services to Indigenous communities.

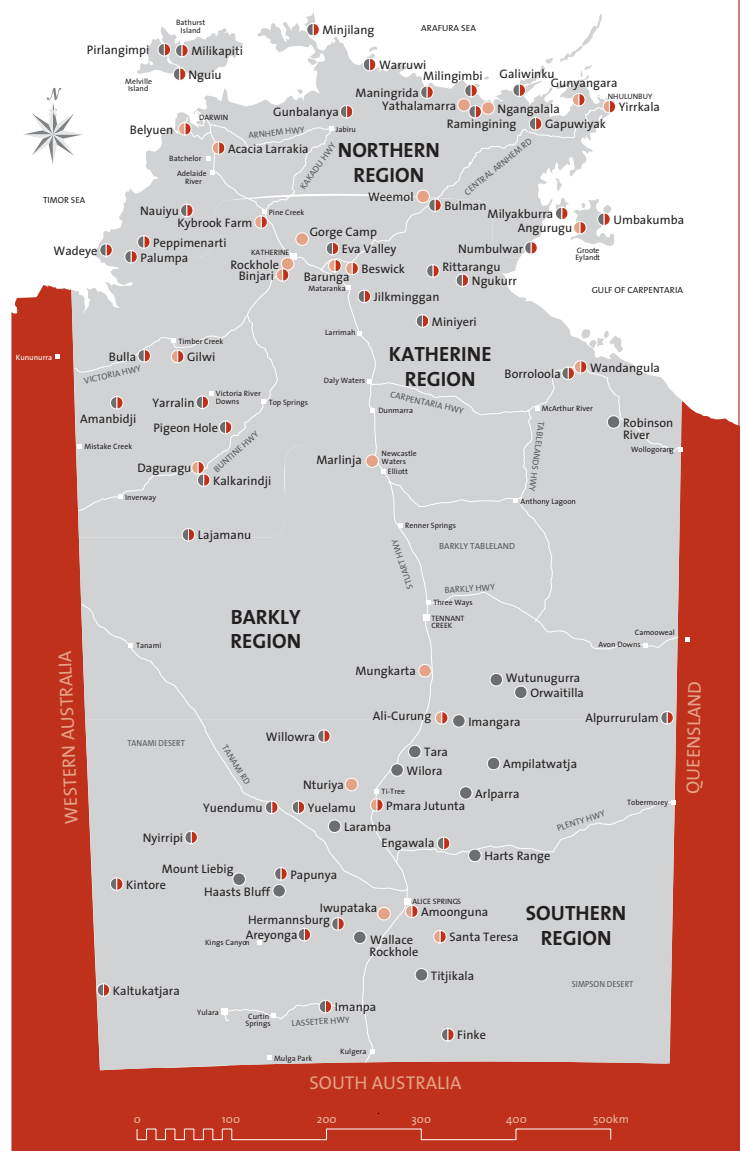
Electricity is charged to all customers and water supply and sewerage services are charged to government and commercial customers on Indigenous communities at the Northern Territory-wide tariffs which are heavily subsidised by the Northern Territory Government.

IES delivers the electricity supply, water supply and sanitation services, through a total asset base of \$169.3 million and revenues of \$70.6 million per annum (including \$56.4 million funding from the Northern Territory Government).

IES provides services to around 7,200 residential and business customers in remote communities across the Northern Territory's 1.4 million square kilometres.

Working across a diverse and sparse landscape, some of the most significant challenges faced by Indigenous Essential Services lie in operating and communicating across these vast distances, sensitive environments and differing climates.

To help respond to diverse local needs IES has experienced professional and technical staff located at major urban centres across the Territory. There is a strong focus on our people, the support and engagement of local contractors, and developing the skills of more than 70 Indigenous Essential Services Operators employed by local councils and private contractors - one third of whom are Indigenous.



- Power Stations
- Transmitted Power Supply (These centres receive their electricity by line from adjacent centres.)
- Sewerage Services
- Water (All the above communities have reticulated supply.)

3. Corporate Governance and Funding

3.1 Board

Mr Neil Philip (Chairman) LLB (Hons)

Mr Philip has been a Director of IES Pty Limited since its establishment in June 2003 and Chairman from that time to 30 June 2007. Mr Philip was a founding shareholder and Chairman of Nexus Energy Ltd, a Melbourne based publicly listed company. During his period as Chairman of Nexus Energy Ltd, Mr Philip provided board leadership in growing Nexus Energy Ltd from a market capitalization of approximately \$2 million to over \$830 million. Mr Philip is a consultant to national law firm Clayton Utz, having established the Darwin office of that firm and a former partner of that firm. Mr Philip was a founding shareholder and director of Philip and Mitaros Projects Pty Ltd, a property development business based in Darwin. Mr Philip was born in Darwin, attended all of his primary and secondary schooling in Darwin and is a graduate in law from the University of Queensland.

Ms Judith King (Deputy Chairman) BA, Foundation Fellow AICD

Ms King has been a Director of IES Pty Limited since its establishment in June 2003 and was appointed Chairman on 1 July 2007. Ms King has extensive board experience in the private and public sector. She was formerly a director of Melbourne Water Corporation and Citipower and closely involved in the restructure and reform of the Victorian utility sector. Ms King's current appointments include Swinburne Ventures Ltd; National Ageing Research Institute; the Victorian Commission for Gambling Regulation; and the Interim Board of the NT Environmental Protection Authority. Ms King was awarded an Australian Centenary Medal in 2003.

Mr Peter Vines B.Com, MBA, FIE Aust., MAICD

Mr Vines has been a Director of IES Pty Limited since October 2005. Mr Vines has extensive experience in the energy and infrastructure industry both in Australia and internationally. He was previously Managing Director of a major US utility in Australia, Vice President of international M&A and Executive General Manager of Origin Energy. He has been a director of various companies as part of his executive responsibilities. He is currently also a board member of Melbourne Water Corporation.

Mr Barry Chambers FIEAust., FAICD

Mr Chambers was appointed as a Director of IES Pty Limited on 1 July 2007. Mr Chambers has 40 years experience as a professional engineer working for local, Territory and Federal governments in the provision of engineering services, infrastructure, public buildings, town planning, land management and environmental services.

For 13 years he held Chief Executive Officer positions in Northern Territory Government agencies including the former Power and Water Authority and positions as a director and chairman of various Corporations Act entities. He has extensive experience in strategic planning, project management, budget management, workplace relations, government decision making processes and ministerial liaison.

Mr Andrew Macrides Dip Bus (Mgt), B Bus (Acc), MBA, FCPA, FAICD

Mr Macrides was appointed as a Director of IES Pty Limited on 1 July 2007 following his appointment as the Managing Director for the Power and Water Corporation on 15 June 2007. Mr Macrides, who was born and raised in Darwin, has extensive government and management experience, beginning his career in the accounting field in 1978. Prior to joining Power and Water in 1998 he worked across a range of sectors in the Northern Territory – including health, housing, community services and tourism. Seconded to a project team in 1998 to review the then Power and Water Authority's (PAWA) operations, Mr Macrides was subsequently offered the role of Director Business Services within the utility. Following corporatisation on 1 July 2002 he was appointed General Manager Business Services and Chief Financial Officer with the Power and Water Corporation and in May 2003 he was appointed as Company Secretary in addition to his role as General Manager Business Services.

Mr Robert Neil B.Sc, B.E. (Hons), Dipl. Bus. Admin., FIEAust., FAICD

Mr Neil was a Director of IES Pty Limited from 10 October 2005 and resigned on 30 June 2007. He has a private and public sector background in the oil, gas and electricity industries in Australia and the USA through roles with Esso Australia, Western Mining Corporation and the NSW and Tasmanian Governments. He also has extensive experience in strategic planning and in the gas production and pipelines industry segments. Mr Neil was the Director-General of NSW Department of Energy from 1996 – 2001 and worked with the Tasmanian Government to complete Tasmania's entry into the National Electricity Market in 2005.

Mr Kimley (Kim) Wood B. Eng, Dip Eng, MBA, FIE Aust., CPEng

Mr Wood was a Director of IES Pty Limited from 2003 and resigned on 2 February 2007. Mr Wood held the position of Managing Director Power and Water between August 2002 and February 2007. Previously he was the inaugural Managing Director of City West Water from 1995 to 1998 and Managing Director of Sydney-based GEC-Plessey in the early 1990's. He also led Victorian electricity transmission business GPU PowerNet in the late 1990's. Before taking up the Managing Director's position at Power and Water he was Chief Executive of a listed dotcom business.

The Power and Water Corporation remains committed to meeting and, where possible, exceeding our customers' expectations for performance.

3.2 Service Agreements

Indigenous Essential Services (IES) has an agreement with Power and Water to provide management, professional, technical, retail and corporate services to deliver commitments to customers and the Northern Territory Government. These services are, primarily, provided by the Remote Operations, Retail and Financial Services business units of Power and Water Corporation.

IES has a five-year (2005-2010) agreement with the Northern Territory Government, through the Department of Planning and Infrastructure as its agent, to fund the shortfall in revenue collected from customers in the communities. The agreement has an option for an extension of five years.

The objectives of the Agreement with the Northern Territory Government are to provide:

- reliable and equitable services to Territory funded Indigenous towns and communities;
- effective management of the assets including optimal repair and maintenance programs;
- efficient financial management, providing low cost services, works programming and repair and maintenance programs; and
- support of regional development and Indigenous employment and training.

IES and the Department of Planning and Infrastructure have committed to work closely and cooperatively in partnership. The purchase of additional services by the Department of Planning and Infrastructure is on a fee-for-service basis. Ownership of water supply, sanitation and electricity assets is vested in IES.



3.3 Funding Arrangements

In 2006-2007 revenue collected from the sale of electricity, water supply and sewerage services was \$13.4 million (2006: \$14.4 million). Total revenue received was \$70.6 million. This included a \$41.9 million (2006: \$43.7 million) recurrent grant and a \$14.5 million (2006: \$12.6 million) capital grant received from the Northern Territory Government. The capital grant is used to replace existing assets, improve service standards and service increased demand.

Revenue from Electricity, Water and Sewerage (EWS)	2006-2007	\$13.41 million
	2005-2006	\$14.91 million
Total Revenue	2006-2007	\$70.57 million
	2005-2006	\$72.06 million
Recurrent Grant	2006-2007	\$41.85 million
	2005-2006	\$43.66 million
Capital Grant	2006-2007	\$14.54 million
	2005-2006	\$12.63 million

Major cost drivers over the 2006-2007 financial year resulted from:

- An increase in electricity customers of 2.2 per cent;
- A fall in water consumption of 5.0 per cent, with a minor increase in customer numbers; and
- Improved processes for potable water.

The IES asset portfolio consists of:

- Power station buildings that accommodate mostly diesel engines, including fuel receiving, transfer and storage facilities;
- Electrical distribution systems, up to and including the customers' meters;
- Water infrastructure including surface water harvesting, groundwater production bores, bore-pumps, tanks, transfer pumping stations, water treatment and water supply reticulation systems, up to the customers' property boundaries; and
- Sewerage infrastructure, starting at the customers' boundaries, including collection mains, pumping stations and wastewater treatment, reuse and disposal systems.

4. The Year in Summary

4.1 Objectives and Values

Objectives

Indigenous Essential Services Pty Ltd's objectives include the:

- a) provision of safe drinking water;
- b) sustainable management of water resources;
- c) provision of reliable and equitable services to Territory funded Indigenous townships and communities;
- d) effective management of assets;
- e) efficient financial management;
- f) support for regional development; and
- g) support for Indigenous employment and training.

Values

Consistent with those that apply in the Power and Water Corporation, the activities of IES are guided by the following values:

Safety is Paramount

We will protect the safety of our people, customers and the community. 'Zero Harm' is our safety goal.

Our People

We value our people and will encourage them to achieve their full potential. We recognise that we will need to embrace change as an organisation. We will support Indigenous employment and training.

Growth

We will grow the Corporation's business by fostering an efficient, performance-driven culture. We will support regional development.

Our Customers

We will strive for total customer satisfaction with our services. We will provide reliable services to Indigenous townships and communities.

Integrity

We will be honest, consistent and fair in all of our dealings with customers, suppliers and our people. We will provide equitable services to Indigenous townships and communities.

The Natural Environment

We will protect the natural environment by meeting mandated environmental obligations and seeking ways to minimise our environmental footprint.

4.2 Our Highlights

Throughout 2006-2007 a series of initiatives was launched to improve service delivery and prepare for widespread change in governance, priorities and growth in demand for many Indigenous communities.

Safety of reticulated drinking water provided to more than 7,000 households was reviewed, and a strategy to ensure drinking water meets Australian Drinking Water Guidelines by 2010-2011 was developed. Implementation of the strategy began immediately, with the establishment of a dedicated team for Indigenous community water quality, increased monitoring of water supplies, a review and implementation of additional training and procedures for water supply operations and a review of protection barriers from catchment to customer.

Flooding at Gunbalanya, with 930 mm of rainfall over 7 days in March 2007 from a cyclonic low that developed into Tropical Cyclone George, tested the Remote Operations Unit's emergency planning and response. Final restoration of infrastructure damaged by Cyclone Monica was completed in early 2007 including power network, water reticulation and water storage facilities.

The third solar dish power station was commissioned at Lajamanu, bringing solar energy generated to almost 0.73 GWh per annum.

New power stations were built and commissioned at Canteen Creek, Napperby and were well advanced in construction at Pigeon Hole.

Two successful residential Essential Services Operators' training courses were held at Katherine and Alice Springs, supplementing on site training and daily mentoring of community based Essential Services Officers employed by local councils and private contractors.

Preparation works have been undertaken for significant local government reform which will establish nine shire councils to replace 62 local government entities. Most local government entities are involved in the delivery of essential services. This reform provides significant opportunity to improve the efficiency and effectiveness of delivering reliable, safe essential services involving both the shires and local communities in capacity building and demand management initiatives.

The challenges and opportunities which emerged at the end of the financial year, as well as the intervention by the Australian Government, (including the Australian Government assuming five-year leases with the communities serviced and the impact of reforms on Indigenous business), will be a key focus in 2007-2008.

4.3 Strategic Issues – Looking Forward

4.3.1 Local Government Reform

The Northern Territory Government announced on 30 January 2007 a new local government structure consisting of four municipal councils and nine shire councils.

The nine shire councils will be formed from 62 existing local government entities, most of which are contracted by Power and Water to deliver essential services and play a key role in customer connections and revenue metering. Power and Water is working closely with the Northern Territory Government and local councils to develop and implement new service delivery models by 1 July 2008.

A plan is being developed to ensure arrangements for the provision of essential services are identified and realistic time frames are established to implement these at the commencement of the new shire councils.

Planning will include all key stakeholders who play major roles in the provision of essential services to remote communities to form a dynamic team which has the expertise to align the current arrangements with the new arrangements.

4.3.2 Energy Source Strategy

Almost 25,500 litres of diesel fuel was burnt in 2006-2007 to generate 93.1 giga watt hours (GWh) of electricity for Indigenous community power generation. The volatility of the World Oil Price, and the resultant cost of diesel fuel, is a major cost driver of delivering electricity in remote communities. Power and Water has been trialling various commercial or near commercial technologies to reduce reliance on diesel fuel as an energy source. These options include:

- a biofuel trial at the minor urban centre of Daly Waters which has demonstrated the technical capability to use biofuel as a diesel fuel alternative for power generation;
- substitution of 30 per cent of diesel fuel with liquefied natural gas at Ntaria (Hermannsburg) resulting in a 10 per cent cost saving from generation with 100 per cent diesel fuel; and
- solar power contribution to diesel fuel generation at a number of sites.

Power and Water is developing an energy source strategy for Indigenous community power generation which aims to lower the cost of supply of electricity over the five to 20 year planning period, reduce the financial risks associated with the volatility of the World Oil Price and reduce our greenhouse gas emissions. The strategy, to be finalised in 2007-2008, includes:

- connection of communities to Power and Water grids and larger power stations where electricity is generated from natural gas sourced in the Northern Territory;
- establishment of regional power grids to enable the decommissioning of lower efficiency small diesel power stations;
- generation of electricity for Wadeye and Pulumpa from the proposed new gas fired power station for the Black Tip natural gas project located near Wadeye;
- conversion of larger generation stations (where economic) to natural gas as a prime, base load fuel;
- developing options for compressed natural gas or liquefied natural gas, should it become economically available in the region;
- exploring options for the commercial use of biofuel;
- increased sites for supplementary solar generation and increased penetration of solar generation at existing sites; and
- exploring the option for wind generation.

5. Performance Overview

Indigenous Essential Services documents its business strategies and performance targets for each financial year, which forms part of Power and Water's Statement of Corporate Intent; a performance agreement with Power and Water's Shareholding Minister.

5.1 Retail

Retail services are similar to those provided to non-Indigenous communities, with the exception of the high penetration of prepayment meters. Water and Sewerage services are not charged to Indigenous households. Street lighting and water used for community amenity is also not charged at this time.

5.2 Generation

There are 57 individual power stations with around 60 MW of installed capacity generating electricity for Indigenous communities of which 12 have fuel delivery and transfer facilities for acceptance of fuel from coastal barge services. Four stations have supplementary solar power generation. Other communities are connected to the Power and Water network grids or the power network grids or the Nhulunbuy and Groote Eylandt power network grids. The N-1 criterion has been adopted for generation plant. That is, forecast peak demand can be met with the largest generation unit out of service. This results in a lower capital investment, with higher risk than the N-2 criteria adopted for the larger power stations overseen by Power and Water.

5.3 Fuel Storage

Fuel storage is critical to provide the balance between fuel holding and available schedules for refuelling by either road or barge transport. Road access, particularly during the wet season in the north and summer rains in central Australia, significantly impacts the volume of fuel storage required. As the demand for energy produced increases, the fuel holding and therein storage is also required to be increased. The five year program will bring fuel storages in line with good practice and minimum standards for infrastructure and bunds to contain fuel during fuel handling operations or in the event of infrastructure failure.

5.4 Power Networks

Power feeder and distribution systems are designed and maintained to Power and Water standards. The inherent reliability of the systems is equal or above the reliability of Power and Water networks due to the relatively small size of the systems.

5.5 Water Supply

The target volume of water sourced is 1200 litres per person per day for the peak consumption month, with an annual average target of 800 litres per person per day.

The number and length of outages is similar to other minor urban communities across the Territory. The equipped borefield is developed, where possible, to meet demand (1200 litres per person per day) without the largest bore operating (N-1 methodology). Response times for major repairs from the time of reporting is less than 24 hours.

5.6 Water Storage

Water storages are critical in providing a balance between demand and supply (using N-1 criteria for production bores and transfer facilities) and ensuring reticulation systems deliver defined service levels for flow and pressure. The minimum storage is 12 hours (based on average water consumption of 800 litres per person per day), with preferred operating storage at 24 hours. A significant portion of the fleet of storages are nearing the end of their useful life and a program has been developed for replacement and augmentation of storage facilities over the next five years.

5.7 Water Quality

Power and Water seeks to provide a safe drinking water supply based on the risk based approach of the Australian Drinking Water Guidelines (ADWG) and has committed to invest in preventative measures and monitoring critical control points, and reduce the reliance on laboratory verification. During 2006-2007 four 'boil water alerts' were issued for Naiyu (Daly River), Rittarangu (twice) and Pirlangimpi (Garden Point) as a direct result of laboratory verification of water quality. The robust verification process, based on monthly sampling will be further enhanced with weekly laboratory verification adopted for communities of more than 1,000 people in 2007-2008.

5.8 Wastewater Collection

57 communities have conventional water-borne sewerage or hybrid effluent collection and sewerage facilities. Design and maintenance standards are consistent with Power and Water standards for sewerage elsewhere in the Northern Territory.

5.9 Sewage Treatment

Sewage treatment is predominately undertaken via waste stabilization ponds, which have a low recurrent cost but higher capital costs. An assessment will be undertaken in 2007-2008 of hydraulic and biological capacity and improvements in effluent disposal or reuse to meet good practice and compliance with potential environmental regulation for treated wastewater discharges to receiving water bodies.

6. Review of Operations

6.1 Retail Services

About 80 per cent of domestic customers use pre-payment meter options with tokens purchased in the local community. The meter technology used over the last decade is no longer supported and new meter technology, known as the wide card option, is being rolled out. The wide card prepayment meter offers the same functions as the previous meter although it has a different system for accepting tokens (through a mechanical/electronic reader), which will provide a more reliable service. The transition program for wide card prepayment meters is over three years.

The program was first trialled with a community in the northern region and a community in the southern region. These trials considered how the meters were introduced, credit replacement and the general wear on the meters by the different conditions. To date the wide card prepayment meters have performed to expectations, eliminating the issue associated with its predecessor.

6.2 Essential Services Operators

Essential Services Operators employed by local councils and private contractors are a critical element of the service delivery model. Power and Water contracts with the local councils and private contractors on a commercial basis to recruit and manage the Essential Services Operators. Essential Services Operators' training is an important part of capacity building within remote communities. Training provided by Remote Operations for the provision of essential services is delivered via two different methods. In most cases, when a new Essential Services Operator begins they will receive visits from Power and Water staff to help them develop an understanding of the facilities available and equipment used. Visits continue with the routine inspections undertaken by Power and Water staff and gaps for improvement are identified. Each year in the northern and southern region an Essential Services Operators' familiarisation training course is developed and co-ordinated by Power and Water's Community Liaison staff. These courses offer more depth through structured theoretical and practical classroom arrangements. Focusing on all aspects of essential services, Power and Water staff deliver training in a variety of areas ranging from electrical and mechanical generation to water sampling and testing through to diesel fuel storage with an underpinning element of occupational health and safety, environmental awareness and quality procedures.

6.3 Water for Healthy Communities

Power and Water is committed to the quality, safety, reliability and sustainability of drinking (potable) water supplies. *Water for Healthy Communities* was developed in 2006-07 as a strategy for the provision of safe drinking water for Indigenous communities. It aims to build drinking water quality in Indigenous communities to levels consistent with

the 2004 Australian Drinking Water Guidelines (ADWG), by 2010-2011.

The strategy will be achieved through implementation of the Framework for the Management of Drinking Water Quality (Framework) from the ADWG, investment in water supply infrastructure and the addition or improvement of water treatment systems.

The 2004 ADWG provides an authoritative reference for what is considered safe and good quality while the Framework provides an appropriate structure for good management of drinking water supplies, which ensures the delivery of safe, good quality water. The implementation of the Framework involves a comprehensive approach to the delivery of safe drinking water, including the protection of water sources, appropriate design and maintenance of infrastructure and the use of 'barriers' to protect against microbial contamination, including chlorination and ultra violet disinfection.

Within the context of Indigenous communities, four components of the Framework primarily influence the provision of safe drinking water.

Investment in infrastructure through the implementation of disinfection systems will not address all contamination events in isolation. Infrastructure only provides an effective 'barrier' when appropriately operated and maintained. Appropriate skills, training and resources to build the capacity of Essential Services Operators, effective operational procedures and community consultation are each critical elements of the strategy.

6.4 Microbial Quality Incidences

Microbial quality poses the greatest risk to public health, as implications from providing unsafe drinking water are acute and immediate. The 2004 ADWG recommends monitoring microbial indicator organisms as a final check to verify water quality. *Escherichia coli* (*E. coli*) are bacteria that are used as indicators of faecal contamination and total coliforms are used for operational monitoring of the system.

Microbial monitoring involves water samples being taken from a number of locations throughout the water supply system, including the supply source, the outlet of the storage tank and within the community reticulation system at the health clinic and/or the school, which are sent to independent laboratories in Darwin and Alice Springs for analysis.

The laboratory notifies Power and Water immediately when *E. coli* is detected in the water supply samples and under an established protocol these are reported to the Chief Health Officer with the Department of Health and Community Services to ensure the risks to public health are minimised.

In most situations, the detection of *E. coli* in the system can be managed effectively without posing a significant risk to the public, although on some occasions, the Chief Health Officer

identifies that the laboratory results indicate a potential risk to health. A precautionary advice for drinking water is then issued by the Chief Health Officer in the form of a 'boil water alert', which is only lifted when the contamination is verified as removed from the system.

During 2006-2007 four 'boil water alerts' were issued for Nauiyu (Daly River), Rittarangu (twice) and Pirlangimpi (Garden Point) as a direct result of laboratory verification of water quality. Three of the four incidents had the potential to impact public health. Two other incidents at Nauiyu (Daly River) and Peppimenarti were considered for the issue of 'boil water alerts'. The robust verification process, based on monthly sampling will be improved with weekly laboratory verification adopted for communities with more than 1,000 people throughout 2007-08.

6.5 Cyclone Monica

Severe Tropical Cyclone Monica had a significant impact on the Australian coast on 25 April 2006. Cyclone Monica travelled west into the Northern Territory and affected the small islands north of the Arnhem Land coast as a Category 5 before finally making landfall on the northwest Arnhem Land coast, just 35km west of Maningrida.

Monica was small in size, but very intense, not unlike Cyclone Tracy that devastated Darwin in 1974. Generally, high rainfall was experienced within 100km of Monica's path, however some of the largest totals (eg 261mm in 24 hours at Kidman Springs in the Victoria River District) occurred long after Monica made landfall, and was a weakening tropical depression overland in the Northern Territory.

Well executed preparation measures before the arrival of Cyclone Monica, including the clearing of loose materials around the populated areas, reduced the infrastructure damage to the communities of Gunbalanya and Maningrida.

Immediately following Cyclone Monica, Power and Water staff and contractors flew to both Gunbalanya and Maningrida to assess the damage to essential services infrastructure. Temporary remedial work began almost immediately and within 14 days approximately 90 per cent of power services had been restored at both Gunbalanya and Maningrida. Weather conditions, flooding in low lying areas and the need to source materials and heavy construction equipment at the time prohibited permanent repairs being carried out.

Permanent repair works for the Maningrida and Gunbalanya power networks were completed by December 2006. The elevated water storage tank at Maningrida was damaged and a contract was awarded for replacement of the tank in the 2006-2007 year. Considerable damage to the underground water and sewerage services at both communities was caused by roots which lifted and broke the water mains when the African Mahogany trees were uprooted.

6.6 Gunbalanya (Oenpelli) flooding

Flooding at Gunbalanya, with 930 mm of rainfall over 7 days from a cyclonic low that developed into Tropical Cyclone George, again tested our emergency planning and response. The 311.2 mm rainfall recorded at Gunbalanya on 1 March 2007 was the highest daily total for the area on record. Records go back 93 years.

The potable water supply was operational with no evident damage to the water reticulation system. The water mains had maintained positive water pressure and there was no evident risk of contamination. A 'boil water alert' was issued in case there was contamination present. Power and Water conducted water sampling which verified the water as safe to drink.

Waters began to recede on Sunday, 4 March 2007. Power and Water staff returned to the community on Monday, 5 March 2007 to assess the water and sewerage situation. All sewerage pump stations were inundated with flood water. There was some water damage to the electrical control switchboards which required attention. Repairs were attended to immediately in readiness for when the flood waters receded.

By Monday, 5 March 2007 two main sewerage pump stations were operational and the floodwaters were receding. The two remaining pump stations were still inundated with floodwater.

On Tuesday, 6 March 2007 Power and Water staff travelled by helicopter to assess the borefield. The borefield suffered extensive flooding but there was no damage to the infrastructure or to the power distribution system, the bores were operational and there was no threat of water contamination as the bore heads were sealed. Power and Water continued to sample the water supply and the water was verified safe to drink.

Power and Water staff and contractors worked on renewing electrical components of the main switchboard which were damaged by water. Contractors continued working on repairs to the telemetry system at the borefield tank. Communications between the borefield tank and the main town tank were lost during the flooding and the system was programmed to work on manual operation. All necessary repairs were completed within three weeks of the flooding.

6.7 Yuelamu Water Supply

Yuelamu, population 230, is located 290 kilometres north-west of Alice Springs, off of the Tanami Road. Yuelamu does not have an economic potable ground water supply like most arid communities and relies on water from a dam that was developed for the pastoral property before the community was established.

The catchment area for the dam is relatively small and in a region subject to droughts. Below average rainfall for the

past decade has left the Yuelamu community using imported packaged drinking water, provided by Power and Water, since April 2004. A low yield, saline bore supply has been accessed to provide water for non potable uses.

Studies indicated that the existing dam provided (on average) water for the community in seven out of 10 years.

A \$1 million upgrade of the dam in 2006-07 means the dam should now be able to provide (on average) water for the community in nine out of 10 years.

The Australian Government contributed \$50,000 to the project. The first substantial rain fell in the catchment in early 2007. Dam water will be treated and supplied as drinking water from September 2007.

Works to improve storage and collection of rain water included:

- construction of a dividing wall across the dam and deepening to 12 metres to establish an east side with 70 megalites, a combined sump capacity of 125 megalites;
- the construction of dam wingwalls to retain water within the dam area providing 1,000 megalites of total storage;
- construction of a culvert under the aerodrome which is located in the catchment to increase the catchment area by 10 per cent to 0.78 square kilometres;
- a transfer pumping system from the western sump to the eastern sump; and
- upgrading of the water treatment and filtration plant.

Five people from the community were involved in the construction works under a structured program as trainee machinery operators.

Power and Water is developing a *Community Water Plan* for Yuelamu, based on the Australian Drinking Water Guidelines' Framework, including a catchment management plan, monitoring of critical control points to protect the safety of the drinking water from catchment to customer, and water efficiency and resource conservation measures to manage the limited water resources.

6.8 Pigeon Hole Power Station

Construction of a \$1.4 million power station began in 2006-2007 and is scheduled for completion in November 2007.

The existing Pigeon Hole power station is located in the centre of the township and approximately 30 metres from the school, resulting in distracting noise for the students, teaching staff and the community.

In 2003 when the community was inundated by flood waters, one of the bulk fuel storage tanks broke lose and floated into the school yard, becoming lodged against the school building. The generating units in the power station were submerged and required replacement.

After discussions with the community and traditional owners, a new site for the power station was agreed to, which is one kilometre from the community on a ridge away from flood risks.

Three 55,000 litre fuel storage tanks are being installed to increase the security of the power supply in the event of flood water restricting access for fuel deliveries. Fuel deliveries can now be scheduled for October with no further deliveries required until after the annual wet season.

Clearing of the new site began in May 2007. The site required clearing and raising 100mm and a road surrounding the power station compound was constructed to allow access for the road trains to deliver fuel to site. During the start of the construction period rain delayed the project by three weeks as the roads were cut by flood waters and the work site became inaccessible. Construction is due for completion in November 2007.

6.9 Canteen Creek

The Canteen Creek power station was built more than 20 years ago and was designed for a life expectancy of between 15 and 20 years, with capacity for two small generating units. This design is a shorter life than standards now adopted by Power and Water for similar stations. As the community increased in size, and the demand for power increased, a container mounted generating unit was installed to carry the increased summer demand.

Construction of a new \$1.4 million station, including generation plant and facilities, was completed in the 2006-2007 financial year.

The new building, housing three generators, is an all-steel construction meeting category C cyclone ratings. This is standard for all power stations constructed throughout the Northern Territory in both cyclonic and non-cyclonic areas. The standard includes fuel storage and bunding to AS1940, external radiators, dust proof and pressurised engine room and air conditioned control room.

The new station has improved the efficiency of generation plant (with reduced operational costs), improved the reliability of the power supply to the community, reduced the noise from the power station and increased fuel storage to cater for interruptions to road access.

6.10 Napperby

The Napperby power station was originally an improvised facility developed from a converted demountable building with capacity for two small generating units. In order to improve the safety of the facility and capacity of the switchboard, a \$530,000 replacement station was built throughout 2006-2007.

Similar to Canteen Creek, the new station includes three diesel generation units, fuel storage and bunding to AS1940, external radiators, dust proof and pressurised engine room and air conditioned control room.

Operational costs have been reduced and power reliability has been improved with the new infrastructure.

6.11 Angurugu Power Supply Upgrade

The power distribution network for the community of Angurugu, population 1,200, is connected into the Groote Eylandt Mining Company (GEMCO) power network grid system.

As part of the negotiations between the Anindilyakwa Land Council, the Northern Territory and Australian Government for a Regional Partnership Agreement, a significant increase in housing and other infrastructure is proposed for Angurugu.

To meet current and projected future power demand of Angurugu it was necessary to upgrade the supply voltage into the community. The upgrade, completed during the 2006-2007 financial year, included the installation of 2 mega volt-ampere (MVA) step down transformer from 33 kV to 11 kV, 500 metres of underground cabling, two kilometres of new overhead network and the change out of step down transformers.

6.12 Gunbalanya Water Supply

Water supply for Gunbalanya, population 1,500, has provided a long term challenge in balancing supply and demand where water is drawn from a large number of low production bores and the surface water supply from Fysh Creek. Two new production bores were brought on line at Gunbalanya in 2006-2007, bringing the total number of bores now in operation to 13. The new bores will produce an additional three litres per second making a total borefield production of 15 litres per second.

The billabong water source, owned and operated by the local community council, is used for irrigation of parks and gardens throughout the community and helps supplement the potable water supply. The billabong water irrigation system was extensively damaged by Cyclone Monica in 2006.

As part of an agreement with the local council to work in partnership on water efficiency and resource protection initiatives to better manage demand, and ensure the sustainability of the water supply options, Power and Water restored the pumping system by upgrading the pumping and electrical control system and provided support for repairs to the non-potable reticulation.

Gunbalanya and Santa Teresa are two pilot communities working closely with Power and Water on demand management initiatives being trialled as part of the *Community Water Plan* program.

6.13 Nguiu Ground Water

The community of Nguiu located on the Tiwi Islands, approximately 85 kilometres northwest of Darwin has a population of about 1,400. This figure increases significantly during the wet season and when ceremonies are in progress.

All water is sourced from ground water. The borefield consists of seven production bores with a combined capacity of 19 L/second. The majority of the production bores were drilled in the 1970s and early 1980s. The borefield has a capability of a yield of 60 litres per second from the current annual recharge of aquifer. The water is characteristically low pH, hardness and alkalinity; it is extremely corrosive to materials used in bore construction and in water reticulation infrastructure.

Two challenges exist within the bore infrastructure; poor water quality due to low pH and severe sand intrusion through the bore fine screens. Sand ingress in some of the existing production bores has resulted in low yields and water quality has caused erosion of the steel bore casing resulting in bore collapse and failure due to fine sand intrusion. The yield from the bore field is insufficient to meet the growing demands of the community, therefore it has been necessary to impose water restrictions and deploy target programs working closely with the Nguiu community to reduce demand on the water supply system.

Six production bores were drilled in 2006-2007 in existing borefield with each bore producing between three and half litres per second and six litres per second. The total production from the new bores is slightly more than 30 litres per second. Two of the new bores will be equipped in late 2007 (replacing existing) along with other measures to increase the production and transfer capacity of the system.

6.14 Ngukurr Water Security

The community of Ngukurr is located on the northern bank of the Roper River approximately 500 kilometres to the east-southeast of Darwin and has a population of about 1,000.

A groundwater source presents the best and most manageable option for Ngukurr's water supply in the long-term. An assessment of data has identified an area for investigation with the potential to provide an adequate supply in terms of water quantity and quality. The target formation is the same as that from which Urapunga community obtains its water supply. Estimated yield from bores in this formation is at least five litres per second and water quality is expected to be good.

Ngukurr has two water supply systems. Groundwater from the borefield, which is very aggressive on the water reticulation system and plumbing appliances, and the river. The river water needs to be treated for most of the year. A water treatment plant was constructed to treat the river water however, despite numerous joint attempts with the manufacturer, the plant did not achieve

Several projects are under way in Northern Territory Indigenous and remote communities monitoring the efficiency of renewable solar energy production.

agreed performance goals. The existing sand filtration system is struggling to meet demands and is extremely expensive to maintain and requires constant on-going maintenance.

The water quality from the borefield source has declined since it was commissioned and currently does not deliver water within the recommended guidelines due to elevated total dissolved solids (TDS), high hardness and chloride.

In total, about 22 investigation bores were drilled in the Ngukurr area and three successful bores were drilled with a production rate of between five and 10 litres per second. Final pump test reports have not yet been released, but it is expected the new bores will meet the demands of the community for the next 20 years.

6.15 Rittarangu Water Supply

The community of Rittarangu (Urapunga) is located south-east of Katherine and 30km from Ngukurr community, with a population of 200. Water supply to Urapunga is delivered from two production bores, which are located within the community residential area. Water quality from the borefield is often unacceptable due to contamination from ground water. The bores are from a shallow aquifer, which are subject to contamination from nearby septic tanks.

Rittarangu has only one water supply system from the borefield, which is located within the heart of the community. Water quality has failed bacterial tests due to contamination caused by ground water entering the shallow aquifer. Due to the location of this borefield, there are considerations relating to the water source security. Relocation of the borefield will be undertaken as a longer-term solution.

Two successful bores were drilled and have been pump-tested to 20 litres per second. The final pump test and recommendation report have not been made available to Power and Water as yet.

6.16 Solar Energy

Several projects are under way in Northern Territory Indigenous and remote communities monitoring the efficiency of renewable solar energy production where transportation and storage costs for diesel fuel are high.

Two solar technologies are being evaluated in commercial applications:

- Flat Plate Solar Photovoltaic collectors at Bulman in Arnhem Land (and also at the minor urban centre of Kings Canyon in central Australia); and
- Solar Dish Concentrators at Ntaria (Hermannsburg) and Yuendumu in the central desert regions and also Lajamanu (Hooker Creek) in the western Katherine region.

There are different characteristics for these technologies. The flat plate system with cell efficiency of 24 per cent is robust, easily transported and installed.

Solar Dish Concentrators with cell efficiency of more than 30 per cent are larger to transport and erect but easily upgraded with the installation of more efficient cells (as technology improves) at the focal point of the dishes.

These solar installations currently augment reciprocating diesel engine power stations, reducing both consumption of distillate and production of greenhouse gas emissions.

The following is a list of Power and Water Corporation supported solar projects, the commissioning dates and generation capacity:

- Bulman commissioned in February 2003 with 55kW peak representing 39 per cent of power station maximum demand;
- Ntaria (Hermannsburg) commissioned in August 2005 with 160 kW peak representing 28 per cent of power station maximum demand;
- Yuendumu commissioned in December 2005 with 240kW peak representing 30 per cent of power station maximum demand; and
- Lajamanu (Hooker Creek) commissioned in November 2006 with 280kW peak representing 40 per cent of power station maximum demand.

Monitoring of these solar installations with differing characteristics will identify the most viable solution for remote the production of electricity in remote locations.

7. Indigenous Essential Services Statistics

7.1 IES Statistical Summary Table

Indigenous Essential Services

Statistical Summary as at 30 June 2007

		2003	2004	2005	2006	2007
Electricity Generation						
Installed Capacity (including Solar) 1.	MW	43	42	45	48	51
Installed Capacity - Solar 2.	MW	-	-	-	0.5	0.7
Electricity Generated (including Solar) 3.	GWh	79	79	85	95	95
Electricity Generated - Solar 4.	GWh	-	-	-	1.0	1.6
Electricity Sent Out 5.	GWh	83	73	79	86	86
Purchases Form Private Suppliers	GWh	7	7	7	7	8
Distribution (22/11 kV and Below)						
HV Overhead	km	470	506	526	529	558
HV Underground 6.	km	-	1	1	1	1
LV Overhead 7.	km	251	243	248	253	279
LV Underground	km	1	1	1	1	1
SWER All Voltages	km	81	81	81	81	81
Sales 8.	MWh	61,514	58,023	58,893	60,019	60,574
Customers 9.	No. of	6,710	6,717	6,818	7,213	7,373
Water						
Production 10.	ML	7,977	9,970	10,104	9,733	9,250
Length of Mains 11.	km	589	589	597	599	599
Customers	No. of	522	522	530	524	527
Wastewater						
Volume of Sewage Treated 12.	ML	*U/A	2,636	2,732	3,508	3,552
Length of Sewer Mains	km	309	313	319	319	320
Volume of Effluent Reused	ML	-	-	-	-	-
Customers 10.	No. of	396	401	407	420	420

* U/A = Data Unavailable

IES Statistical Summary Table Referencer

Reference	Measure	Explanatory Note
1	Installed Capacity (including solar)	Capacity has grown from 48 MW in 2005-2006 to 51 MW in 2006-2007 due to upgrades in generation sets in various communities to meet increasing demand predominately in the Katherine and Alice Springs Regions.
2	Installed Capacity - Solar	Capacity is as follows: Bulman 0.055 MW (commissioned 2003-2004); Hermannsburg 0.16 MW (commissioned August 2005); Yuendumu 0.24 MW (commissioned December 2005) and Lajamanu .28 MW (commissioned November 2006).
3	Electricity Generated (including solar)	Electricity generated from diesel fuel fell from 94 GWh in 2005-2006 to 93 GWh in 2006-2007 due to more moderate climatic conditions and an increase in energy sourced from solar generation.
4	Electricity - Solar	Hermannsburg 429,760 kWh (commissioned August 2005); Yuendumu 577,929 kWh (commissioned December 2005) and Lajamanu 550,407 kWh (commissioned November 2006).
5	Electricity Sent Out	The original figure of 83 GWh in 2003-2004 was amended due to an error being discovered in the original calculation.
6	HV Underground	The original figure of 0 km reported in 2003-2004 was amended as new information became available.
7	LV Overhead	Reported figures for 2003-2004 to 2005-2006 have been restated due to errors found in the original calculations.
8	Electricity - Sales	Sales exclude consumption by prepayment meters.
9	Electricity - Customers	Customer numbers include prepay meters.
10	Water Production	Water production has fallen from 9,733 ML in 2005-2006 to 9,250 ML in 2006-2007 due to more moderate climatic conditions and demand management.
11	Length of Mains	Length of water mains reported figures for 2001-2002 to 2005-2006 have been restated after an error in the drawing program measuring the pipeline lengths was identified and corrected.
12	Volume of Sewerage Treated	The Southern Region is the only region metered the remainder are estimated as a percentage of water consumption - 30% for 2003-2004 & 2004-2005; 40% for 2005-06 & 2006-2007.

8. Financial Performance

	2004-2005 \$ millions	2005-2006 \$ millions	2006-2007 \$ millions
Revenue	68.1	72.1	70.6
Operating Expenses	54.1	59.5	55.3
EBITDA	14.0	12.6	15.3
NPAT	5.8	4.6	6.5
Capital Expenditure	12.9	13.0	14.8
Cash On Hand	1.0	13.6	10.3
Total Assets	151.5	166.8	169.3
Total Liabilities	3.9	14.7	10.6
Equity	147.6	152.1	158.7

IES is in a sound financial position with a Net Profit After Tax (NPAT) of \$6.5 million, a 1.9% increase on last year, a total asset base that has grown to \$169.3 million and revenue of \$70.6 million.



9. Financials

Remaining part of Annual Report relates to the statutory requirements for Financial Statements for the year ended 30 June 2007

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Directors' Report

The directors present their report together with the financial report of Indigenous Essential Services Pty Limited (the Company) for the year ended 30 June 2007 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr Neil Robertson Philip

Director since 26 June 2003
Chairman from 26 June 2003 to 30 June 2007

Ms Judith King

Director since 26 June 2003
Appointed Chairman 1 July 2007

Mr Kimley John Wood

Director since 26 June 2003
Resigned on 2 February 2007

Mr Robert Stewart Warren Neil

Director since 10 October 2005
Resigned on 30 June 2007

Mr Peter Vines

Director since 10 October 2005

Mr Barry William Chambers

Appointed 1 July 2007

Mr Andrew Peter Macrides

Appointed 1 July 2007

Company Particulars

Indigenous Essential Services Pty Limited is an Australian proprietary company, incorporated and operating in Australia.

Principal Registered Office and Principal Place of Business:

Level 2 Mitchell Centre
55 Mitchell Street
Darwin NT 0800

Company Secretary: Mr Andrew Macrides

Principal Activities

The Company was formed on 26 June 2003 and commenced operations on 1 July 2003.

The principal activities of the Company during the course of the financial year were to provide electricity, water and sewerage services to remote indigenous communities in the Northern Territory.

There were no significant changes in the nature of these activities of the Company during the year.

Controlling Entity

The Company's controlling entity is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporation Act 2001*. In this report, the controlling entity is referred to as Power and Water.

Operating and Financial Review

The Company's net profit for the period was significantly higher than last year's (2007:\$6,520,406; 2006: \$4,551,476). While the Company's revenue stream declined by 2 per cent, there was also a corresponding reduction in operating expenditure of 5% that brought about a more favourable result for the Company.

In the opinion of the directors, other than the matters mentioned above there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Dividends

In accordance with the Company's Constitution, the Company paid no dividends during the financial year.

Environmental Regulation

The Company's operations are subject to various environmental regulations under both Commonwealth and Territory legislations.

The Company regularly monitors compliance with environmental regulations. The directors are not aware of any significant breaches during the period covered by this report.

Events Subsequent to Reporting Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future Developments

At the date of this report, there are no developments in the operations of the Company that, in the opinion of the directors, are likely to significantly impact the Company during the 2008 financial year.

Lead Auditor's Independence Declaration Under Section 307C of the *Corporations Act 2001*

The lead auditor's declaration of independence is set out on page 21 of the financial report.

Insurance Premiums

The following insurance policies were purchased by Power and Water to cover its directors and officers, and those of its subsidiaries. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

Group Personal Accident Insurance

Professional Indemnity Insurance

Directors' and Officers' Liability

Signed in accordance with a resolution of the directors:



Neil Philip
Director



Andrew Macrides
Managing Director

Dated at Darwin this 27th day of September 2007.

Directors' Declaration

In the opinion of the directors of Indigenous Essential Services Pty Limited (the Company):

- (a) the financial statements and notes, set out on pages 24 to 35, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2007 and its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Neil Philip
Director



Andrew Macrides
Managing Director

Dated at Darwin this 27th day of September 2007.

Lead Auditor's Declaration of Independence



Northern Territory Auditor-General's Office
Auditing for Parliament providing independent analysis



The Board of Directors
Indigenous Essential Services Pty Limited
Level 2, Mitchell Centre
55 – 59 Mitchell Street
Darwin NT 0800

27 September 2007

Dear Board Members

Indigenous Essential Services Pty Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Indigenous Essential Services Pty Limited.

As auditor of the financial statements of Indigenous Essential Services Pty Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Frank McGuiness
Auditor-General for the Northern Territory

Independent Audit Report to the Members



AUDITOR-GENERAL

**Auditor-General's report to the Members of
Indigenous Essential Services Pty Limited
Year ended 30 June 2007**

Page 1 of 2

Scope

Directors' responsibility

The financial report of Indigenous Essential Services Pty Limited comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes and the directors' declaration for the financial year ended 30 June 2007.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted an independent audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Independence Declaration

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Independent Audit Report to the Members cont'd...



AUDITOR-GENERAL

Page 2 of 2

Audit Opinion

In my opinion, the financial report of Indigenous Essential Services Pty Limited is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'F McGuinness'.

F McGuinness
Auditor-General for the Northern Territory
Darwin, Northern Territory
27 September 2007

Income Statement

Indigenous Essential Services Pty Ltd for the period ended 30 June 2007

	Note	2007 \$	2006 \$
Continuing Operations			
Revenue from sale of goods	3(a)	12,797,806	14,379,163
Revenue from rendering of services	3(b)	57,011,424	56,810,256
Interest revenue		472,120	425,598
Other income	3(c)	289,137	450,249
Revenue		70,570,487	72,065,266
Raw materials and consumables used		35,708,732	43,943,012
Depreciation and amortisation expenses		8,721,187	8,054,179
Other expenses	3(d)	19,620,162	15,516,599
Net profit for the period		6,520,406	4,551,476
Profit attributable to members of the parent		6,520,406	4,551,476

The income statement is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

Indigenous Essential Services Pty Ltd for the period ended 30 June 2007

	Note	2007 \$	2006 \$
Equity at the beginning of the year	10	152,141,756	169,246,484
Prior period error	7(a)	-	(21,656,204)
Net profit for the period		6,520,406	4,551,476
		158,662,162	152,141,756

The income statement is to be read in conjunction with the notes to the financial statements.

Balance Sheet

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	Note	2007 \$	2006 \$
Current Assets			
Cash and cash equivalents	4(a)	10,257,501	13,620,844
Trade and other receivables	5	407,757	1,145,995
Inventories	6	5,686,909	5,267,502
Total current assets		16,352,167	20,034,341
Non-Current Assets			
Property, plant and equipment	7	152,945,603	146,844,605
Total non-current assets		152,945,603	146,844,605
Total assets		169,297,770	166,878,945
Current Liabilities			
Trade and other payables	8	10,635,608	14,737,189
Total current liabilities		10,635,608	14,737,189
Total liabilities		10,635,608	14,737,189
Net assets		158,662,162	152,141,756
Equity			
Contributed equity	9	10	10
Retained earnings	10	158,662,152	152,141,746
Total equity		158,662,162	152,141,756

The income statement is to be read in conjunction with the notes to the financial statements.

Cash Flow Statement

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	Note	2007 \$	2006 \$
Cash Flows from Operating Activities			
Receipts from customers		9,921,087	18,188,724
Payments to suppliers		(55,365,846)	(50,893,220)
Receipt of Government Grants		56,407,888	57,936,003
Interest received		485,077	397,394
Net cash provided by operating activities	4(b)	11,448,206	25,628,901
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		10,637	34,000
Purchase of property, plant and equipment		(14,822,187)	(13,013,023)
Net cash used in investing activities		(14,811,549)	(12,979,023)
Net increase/(decrease) in cash and cash equivalents		(3,363,343)	12,649,878
Cash and cash equivalents at the beginning of the period		13,620,844	970,966
Cash and cash equivalents at end of the period	4(a)	10,257,501	13,620,844

The cash flow statement is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

1. Company Information

Indigenous Essential Services Pty Limited (the Company) is a company domiciled in Australia.

On 27 September 2007, Directors authorised the issue of the Company's financial report for the year ended 30 June 2007.

2. Statement of Significant Accounting Policies

The significant accounting policies which have been adopted in the preparation of this report are:

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations and the *Corporations Act 2001*.

The financial report is prepared on the historical cost basis and the cost is based on the fair values of the consideration given in exchange for assets.

These accounting policies have been consistently applied by the Company and are consistent with those of the previous year.

The financial report is presented in Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards.

Adoption of new and revised Accounting Standards.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

Standard	Effective annual reporting periods beginning on or after
AASB 7 'Financial Instruments: Disclosures'	1 January 2007
AASB 101 'Presentation of Financial Statements' - revised standard	1 January 2007
AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007
AASB 8 'Operating Segments'	1 January 2009
AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006
AASB Interpretation 11 'AASB 2 - Group and Treasury Share Transaction'	1 March 2007
AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007
AASB Interpretation 12 'Service Concession Arrangements'	1 January 2008
AASB 2007-2 'Amendments to Australian Accounting Standards arising from Interpretation 12'	1 January 2008
AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED151 and other amendments'	1 July 2007
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008
AASB 123 'Borrowing Costs' - revised standard	1 January 2009
AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

The directors anticipate that the adoption of these Standards and Interpretations in the future will have no material financial impact on the financial statements of the Company.

The application of these Standards and Interpretations will not affect any amounts recognised in the financial statements, but will change the disclosure presently made in relation to the Company's financial instruments and objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement.

(c) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of goods to the customer.

Rendering of services

Revenue from the rendering of services is recognised when the service is provided, having regard for the costs incurred in providing those services.

Government grants

Revenue in the form of government grants is received from the Northern Territory Government via the Department of Planning and Infrastructure.

Where the grant relates to an expense or capital item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Interest Revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(e) Cost of sales

Cost of sales are those costs attributable to the integrated manufacturing process involved in the generation and transformation of electricity, and the transformation of water into saleable goods.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority (through Power and Water) is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority (through Power and Water) are classified as operating cash flows.

(g) Income tax consolidation

Power and Water Corporation is the head entity in a tax-consolidated group comprising all of its wholly-owned subsidiaries apart from Indigenous Essential Services Pty Limited. Indigenous Essential Services Pty Limited was removed from the National Tax Equivalent Regime effective 1 July 2003.

(h) Cash and cash equivalents

Cash assets include cash on hand and at bank.

(i) Trade and other receivables

Trade and other debtors are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

Trade debtors are on 14 day terms and other debtors are on 30 day terms.

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Costs are assigned to inventory based on the weighted-average purchase cost of bringing each item to its present location and condition.

(k) Property, plant and equipment

Acquisition of assets

The carrying value of assets are originally stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Where an asset is acquired at no cost, or for nominal cost, the cost is its fair value as at the date of acquisition.

Property, plant and equipment assets are measured at deemed cost being the fair value of assets at the transition date to AIFRS on 1 July 2004, less accumulated depreciation and less any impairment losses recognised at that date.

Depreciation and amortisation

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful lives

All assets, excluding freehold land, have limited useful lives and are depreciated using the straight-line method over their estimated useful lives.

Assets are depreciated from the date of acquisition.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed.

The depreciation useful lives used for each class of asset are as follows:

Building, plant and equipment	
Building and improvements	10-50 years
Plant and equipment	3-99 years

There has been no change in useful life compared to prior years.

Impairment of assets

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the depreciated replacement cost.

Depreciated replacement cost is defined as the current replacement cost of an asset, less where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

For property, plant and equipment, impairment losses are recognised in the income statement.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the asset is derecognised.

(l) Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obligated to make future payments in respect of the purchase of these goods and services. Trade accounts payable are normally settled within 30 days.

(m) Additional financial instruments disclosures

Financial risk, management objectives and market exposures

The Company's risks are limited to cash flow interest rate risk, credit risk and liquidity risk.

The Company does not use any derivative financial instruments to hedge these risk exposures as they are considered to be minimal.

Credit risk refers to the risk that a counterparty will be in default on its contractual obligations resulting in financial loss to the Company. The Company does not have significant credit risk exposure to any counterparty or group of counterparties.

The Company manages its cash flow interest rate risk and liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecasted and actual cash flows and matching maturity profiles of financial assets and liabilities.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures these risks.

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	2007	2006
	\$	\$
3. Revenue and Expenses		
<i>Revenue and expenses from continuing operations</i>		
(a) Sale of goods		
Electricity	12,352,039	13,790,986
Water	445,767	588,177
	12,797,806	14,379,163
(b) Rendering of Services		
Recurrent grant	41,850,803	43,656,851
Capital grant	14,543,685	12,626,414
Sewerage services	616,936	526,991
	57,011,424	56,810,256
(c) Other Income		
Other recharges to controlling entity	278,501	416,249
Net gain on disposal of property, plant and equipment	10,636	34,000
	289,137	450,249
(d) Other Expenses		
Repairs and Maintenance	10,191,231	10,246,069
Other	9,428,931	5,270,530
	19,620,162	15,516,599

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	2007	2006
	\$	\$

4. Cash and Cash Equivalents

(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash assets	10,257,501	13,620,844
<i>The weighted average interest rate on cash assets at 30 June 2007 is 5.89% (2006: 5.5%).</i>		
(b) Reconciliation of net profit to net cash flows from operations		
Net Profit	6,520,406	4,551,476
<i>Adjustments for:</i>		
Depreciation	8,721,187	8,054,179
Net (profit)/loss on disposal of property, plant and equipment	(10,636)	(34,000)
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in inventories	(419,408)	437,008
(Increase)/decrease in trade and other receivables	738,238	1,773,069
(Decrease)/increase in trade and other payables	(4,101,581)	10,847,169
Net cash flows from operating activities	11,448,206	25,628,901

5. Trade and Other Receivables

Amounts due from controlling entity	362,707	1,074,589
Interest receivable	41,499	54,456
Other debtors	3,551	16,950
	407,757	1,145,995
<i>Receivables at 30 June 2007 are non-interest bearing.</i>		

6. Inventories

Distillate - at cost	5,686,909	5,267,502
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Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

Type	June 2006				Movements During Year				June 2007			
	At Cost	Accumulated Depreciation	Written Down Value	Additions	Transfer from Capital WIP	Disposals - Cost	Net Value Written Back	Disposals and Write Back - Accumulated Depreciation	Depreciation	At Cost	Accumulated Depreciation	Written Down Value
Land	21,332	-	21,332	-	-	-	-	-	-	21,332	-	21,332
Buildings	17,002,508	(5,773,922)	11,228,585	-	3,134,572	-	-	-	(579,671)	20,137,079	(6,353,593)	13,783,486
Plant and equipment	258,515,522	(128,250,453)	130,265,069	-	10,275,428	(372,443)	-	372,443	(8,141,516)	268,418,506	(136,019,526)	132,398,980
Capital work in progress	5,329,619	-	5,329,619	14,822,185	(13,409,999)	-	-	-	-	6,741,805	-	6,741,805
Total property, plant and equipment	280,868,980	(134,024,375)	146,844,605	14,822,185	-	(372,443)	-	372,443	(8,721,187)	295,318,722	(142,373,119)	152,945,603

7 (a) Prior Period Error

"The Australian equivalents to International Financial Reporting Standards (AIFRS) were adopted from 1 July 2005. AIFRS was applied in preparing the Financial Statements for the year ended June 2006 with prior year disclosures for June 2005 being restated. A review of the restatement of balances as at 1 July 2005 has shown that the Capital Work in Progress balance did not correctly account for capitalisation of assets that had occurred prior to 1 July 2005 and therefore the balance was overstated by \$21,656,204, with the equivalent amount being overstated in opening Retained Earnings. This table discloses the balances prior to and after the correction was made.

	2006	2005
	\$	\$
Capital work in progress prior to correction	26,985,822	27,093,422
Error adjustment	(21,656,204)	(21,656,204)
Restated capital work in progress	5,329,619	5,437,218
Retained Earnings prior to correction	173,797,950	169,246,474
Error adjustment	(21,656,204)	(21,656,204)
Restated Retained Earnings	152,141,746	147,590,270

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	2007	2006
	\$	\$
8. Payables		
Payable to controlling entity	8,977,644	8,638,235
Other creditors and accruals	1,657,964	6,098,954
	10,635,608	14,737,189
9. Contributed Equity		
Issued and paid-up share capital		
10 (2006:10) ordinary shares fully paid	10	10
	10	10
10. Retained Earnings		
Retained earnings at beginning of year	152,141,7456	147,590,270
Net profit for the year	6,520,406	4,551,476
Retained earnings at end of the year	158,662,152	152,141,746

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	2007	2006
	\$	\$

11. Commitments

Capital expenditure commitments		
Contracted but not provided for and payable: within one year	661,675	378,685

12. Related Party Information

Transactions within the wholly-owned group

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end refer to note 8).

Related party		Sales to related parties \$	Purchases from related parties \$	Amounts owed by related parties \$	Amounts owed to related parties \$
Power and Water Corporation and Ultimate Controlling Entity	2007	13,414,742	70,104,154	362,707	8,977,644
	2006	14,906,154	72,474,026	1,074,589	8,638,235

- (i) The controlling entity of the Company is Power and Water Corporation, a government owned corporation pursuant to the *Government Owned Corporations Act 2001*.
- (ii) Under a service agreement, the Company sold electricity, water and sewerage to Power and Water Corporation totalling \$13,414,742 (2006:\$14,906,154). At reporting date \$362,707 (2006:\$1,074,588) remains to be received.
- (iii) During the year, the Company recognised the administration fee charged from Power and Water Corporation totalling \$6,635,947 (2006:\$3,739,086). The fee is based on the cost of administration of the Company incurred by Power and Water Corporation.
- (iv) The Company incurred \$70,104,154 (2006:\$72,474,026) of operating expense charges from Power and Water Corporation during the year. At reporting date, \$8,977,644 (2006:\$8,638,235) remains outstanding.

	2007	2006
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13. Economic Dependency

The Company's revenue is derived from two main sources as follows:		
Revenue derived from the Company's controlling entity	20%	22%
Revenue derived from the Northern Territory Government	80%	78%

Notes to the Financial Statements

Indigenous Essential Services Pty Ltd for the year ended 30 June 2007

	2007	2006
	\$	\$

14. Auditor's Remuneration

Audit Services:		
Auditors of the Company - Northern Territory Auditor-General	44,336	25,589

15. Director and executive disclosures

Directors

The names of each person holding the position of director within Indigenous Essential Services Pty Limited during the financial year are listed in the Director's report.

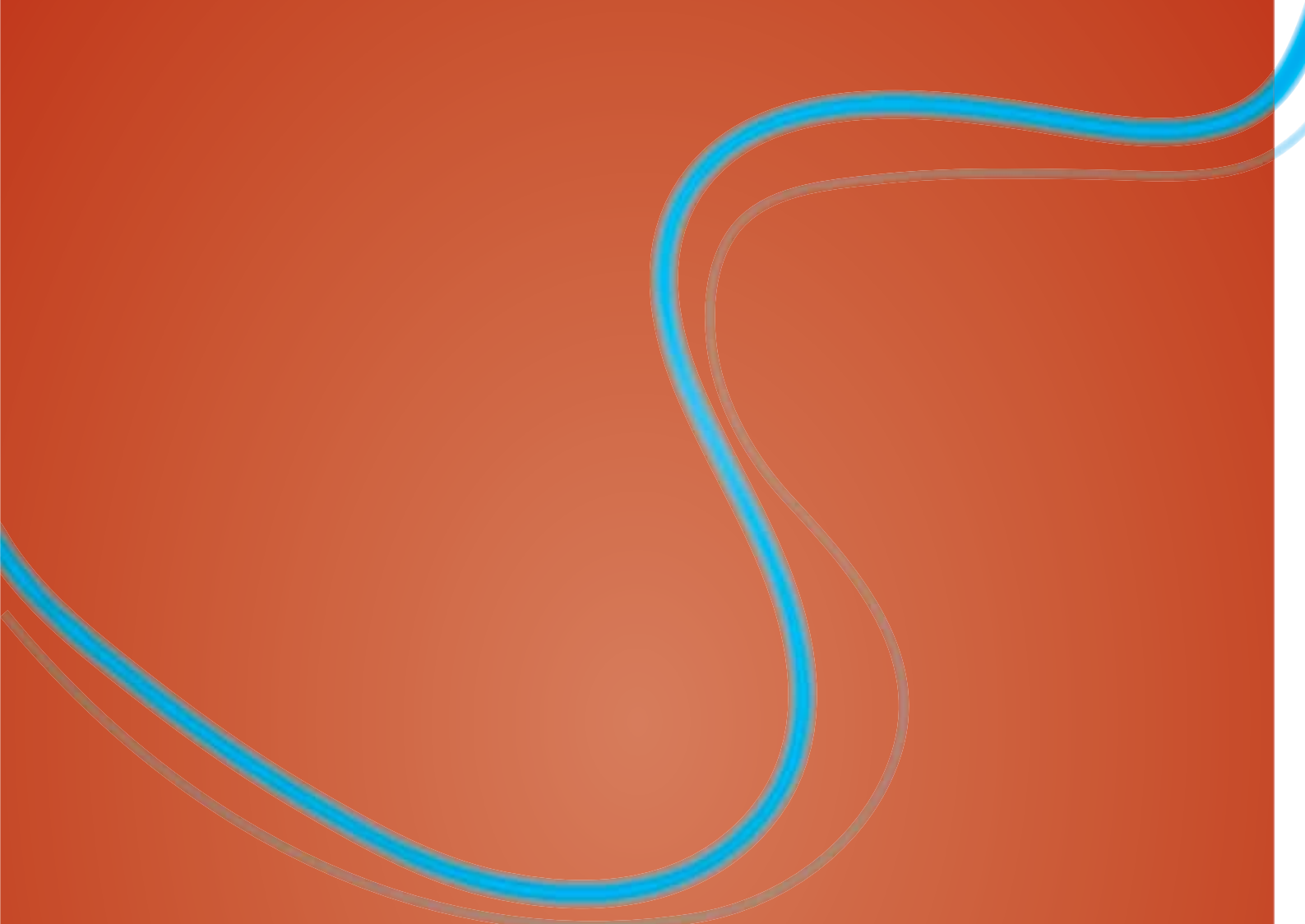
Directors do not receive any compensation for their directorship. No director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interest subsisting at year-end.

Compensation of key management personnel

Indigenous Essential Services Pty Limited has no employees.

16. Events after the Balance Sheet Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transactions or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.



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