



**THE POWER GENERATION COMPANY OF
TRINIDAD AND TOBAGO LIMITED**

***ANNUAL ADMINISTRATIVE REPORT
FOR THE YEAR JANUARY 01, 2012
TO DECEMBER 31, 2012 REQUESTED BY THE
MINISTRY OF ENERGY AND ENERGY AFFAIRS***

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1. Vision, Mission, Philosophy and Strategic Objectives

Vision Statement

Our vision is to be the leading supplier of quality energy, committed to the needs of our customers and sensitive to the environment.

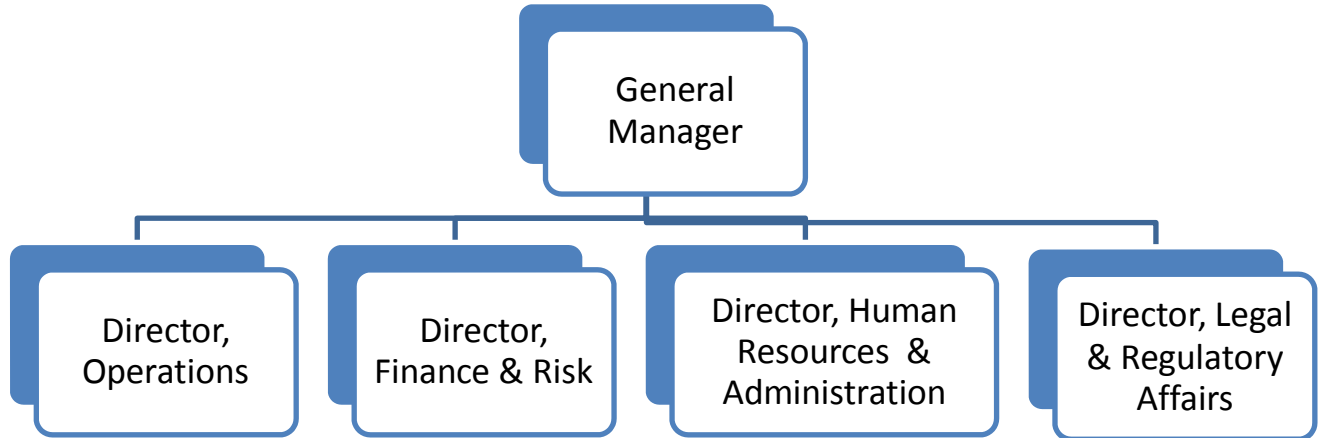
Mission Statement

Our mission is to exceed our customers' expectations for quality energy in a safe and environmentally responsible manner, creating value for our customers, employees and shareholders.

OFFICERS:

| Full Name | Address | Date of Appointment |
|---|--|---------------------|
| Fitzroy Harewood – General Manager | 6A Queen’s Park West, Port of Spain, Trinidad | 2011 |
| Dawn Callendar – Director of Finance | 6A Queen’s Park West, Port of Spain, Trinidad | 2001 |
| Joy Ramlogan – Director of Legal & Regulatory Affairs | 6A Queen’s Park West, Port of Spain, Trinidad | 1998 |
| Hyacinth Guy – Director of Human Resources & Administration | 6A Queen’s Park West, Port of Spain, Trinidad | 1998 |
| Selcrest Husbands – Director of Operations | 6A Queen’s Park West, Port of Spain, Trinidad | 2010 |

b. Corporate Structure (2012)



Function of Each Division:

The General Manager is a position established in the original Shareholders Agreement dated December 23, 1994 as amended by the Amended and Restated Shareholders Agreement dated December 19, 2005. The General Manager reports to the Management Committee of the Board and to the Board of Directors. His reports are:

Director, Operations – responsible for the operations and maintenance of the three power stations at Port-of-Spain, Point Lisas and Penal and the dispatch, engineering and reliability functions.

Director, Finance & Risk – responsible for management of finances in the Company, financial reporting, payroll and benefits, treasury, cost and budgets, purchasing and materials and risk management functions.

Director, Human Resources & Administration– responsible for human resources management, training, industrial relations, employee benefits and programs, corporate communications, information technology and security.

Director, Legal & Regulatory – responsible for legal advice, major contract negotiations, property matters, litigation, corporate secretarial function, regulatory affairs and corporate health, safety and the environment management.

c. Services Products provided and Special Projects embarked upon

The Company is licensed under the T&TEC Act to produce bulk electrical power under its power purchase agreements.

d. Delegated Levels of Authority

The Company's delegated levels of authority are in accordance with the attached Board Approved Policy – See Attachment 1.

e. Legislative and Regulatory Framework

The Company is an approved generator under the T&TEC Act and it supplies bulk electrical power to T&TEC under two power purchase agreements pursuant to a licence under the T&TEC Act. Its main regulatory agencies are as follows:

- *Regulated Industries Commission-* PowerGen maintains a mutually beneficial relationship with the Regulated Industries Commission (“RIC”) by being a source of reliable industry information, actively participating in any initiatives of the RIC.
- *Environmental Management Authority-* PowerGen adheres to the environmental rules and terms of certificates of environmental compliance as well as monitoring and reporting under the Water Pollution Rules as required by the Environmental Management Authority (EMA).
- *Occupational Safety and Health Act Chap. 88:08-* PowerGen complies with the provisions of the Act and also notifies the OSH Agency of any incidents at our Plants which require medical attention.
- *Ministry of Energy and Energy Industries & Governmental Relationships-*PowerGen continues to keep the Ministry of Energy updated on its activities in light of the Government Implementation Agreement, the Company’s environmental indemnity under the 1994 PPA and the thrust for growth opportunities.
- *Other Government Approvals* – PowerGen also has to obtain, inter alia, the following approvals:
 - Fire Certificates for the three Plants
 - Boiler Inspection Certificates for Port of Spain Plant
 - Water Abstraction Licences for Port of Spain and Penal Plants

f. Reporting Functions

In 2012, PowerGen was owned by T&TEC (51%), MaruEnergy Trinidad LLC (39%) and Amoco Trinidad Power Resources Corporation (10%).

PowerGen is not considered to be a state enterprise as control of the entity is with the overseas shareholders and not T&TEC and the government is not a direct shareholder through the Corporation Sole. As such, its accounts are not reviewed by the Auditor General, and based on advice from senior counsel, it is not subject to the Freedom of Information Act nor the Integrity in Public Life Act.

Accordingly, PowerGen only carries out regulatory reporting functions to the Regulated Industries Commission, Environmental Management Authority and Occupational Safety and Health Agency and other agencies as may be required from time to time.

3. Policies and Development Initiatives

Short, medium and Long term plans, Performance objectives and accomplishments

The Annual Review for 2012 sets out the plans and performance for that year and is attached as Attachment 2. The Company operates under two Power Purchase Agreements, the 1994 Power Purchase Agreement for 819MW from all three power plants and the 2005 Power Purchase Agreement for a contracted availability of 90% of 208MW. By law, the Company is only permitted to generate electrical power from the power plants and sell same to T&TEC. Its performance indicators are therefore based on these two agreements:

| | GOAL |
|--|---------------|
| INDICATORS | 2012 |
| Absenteeism (days per employee) | <10 |
| Days Away from Work Cases | 0 |

| | |
|--|----------------|
| 2005 PPA - Avg. Declared Capacity (MW) | ≥204 |
| 1994 PPA - Min. Declared Capacity (MW) | ≥742 |
| New Plant- System Availability (%) | ≥90 |
| Existing Plant- System Availability (%) | >95 |
| | |
| FINANCIAL INDICATORS | 2012 |
| Net Income (US\$ million) | ≥25.301 |
| Dividends Declared | ≥24.007 |
| Dividends per share (US cents) | 4.97 |
| Debenture Repayments (US\$ million) | ≥6.000 |
| Outstanding Debenture | 24.000 |

4. Financial Operations

The Company's financial operations are conducted in accordance with its Amended and Restated Shareholders' Agreement dated December 19, 2005 and Board Approved Policies. The Company's accounts are audited annually by external audit firms and presented annually at the Annual General Meetings of the Company.

a. Highlights for the Fiscal Year - Financial Performance

➤ Comparison to Budget

A comparative analysis of the 2012 actual income versus the 2012 budget income is presented in the following paragraphs.

- **Net Income** of US\$35.020 million represented a positive variance of US\$5.595 million over the budgeted US\$29.425 million.

- **Lease and Service Income** of US\$129.803 million was US\$7.450 million above budget. The components of this variance were:
 - The extension of the 1994 PPA (819 MW vs. planned 742 MW at 95%) which was budgeted to end in June 2012 but remained in effect to the end of the year. This extension resulted in Lease and Service Income showing a Favourable net Variance of US\$6.276 million as additional capacity sales of US\$9.247 million resulted in a favourable effect on Service Income that was partially offset by a reduction to Lease Income of US\$2.971 million.
 - The average CPI was 1.7% higher than the 2012 budgeted projections, which resulted in higher Service Income of US\$0.757 million.
 - The Electricity sales for Units 13 and 14 were marginally above budget by US\$0.119 million reflecting the CPI effect of achieving the contracted availability of 90%. In addition, energy sales associated primarily with the 1994 PPA were US\$0.434 million

above budget.

- Penalties were US\$1.513 million above budget as a result of capacity shortfalls associated with the 1994 PPA. The major contributors were a series of forced outages which included POS 2, Pt. Lisas 9 and Pt. Lisas 11.
 - Finally, the settlement of 2009 excess capacity matter added a further US\$1.377 million favourable effect on Service Income.
- **Operations and Maintenance** costs were over budget by US\$1.255 million. The major contributors to this variance were a US\$2.000 provision for the decommissioning of the POS plant in 2015 and a US\$2.381 million provision to account for obsolete capital spares at the Pt. Lisas plant. The full effect of these increases was mitigated by the delay in the execution of budgeted projects in preference to responding to the need to return units forced out to service.
- **Administrative Expenses** showed a negative variance of US\$0.695 million which was primarily due the increased provision for post- retirement benefits expense when compared to budget as a consequence of the actuarial evaluation of the enhancements inherent in the renewed medical plan.
- **Depreciation and Amortisation Expenses** were US\$0.041 million above budget due to a reclassification from operating to finance leases of vehicles under long-term contracts. These leases are now included as fixed assets and depreciated over the lease term.
- **Other Income** recorded a favourable variance of US\$3.486 million. This was as a result of the final insurance claim settlement for the Pt. Lisas Unit 13 foreign object damage which occurred in November 2010.
- **Current Taxes** were US\$3 .637 million above budget as a result of higher income and lower wear and tear allowances than budgeted.

- **Deferred Taxes** were above budget by US\$0.417 million due to the decommissioning provision. In 2012, total returns to shareholders were US\$43.500 million, which comprised of US\$36.500 million in dividends and US\$7.000 in debentures. This was US\$9.500 million above the budgeted amounts.

b. Budget Formulation

Budget formulation is an annual exercise incorporating all line functions. The format of the budget is in accordance with the Amended and Restated Shareholders' Agreement dated December 19, 2005. The budget is presented to Management Committee of the Board which then recommends same for approval by the Board. The Annual Budget and Strategic Business Plan is normally approved in October of the prior year to the fiscal year commencing on January 01.

c. Expenditure vs Budget

The financial performance of the Company is set out in the Annual Review for 2012 (see Attachment 2). The Board Approved Capital Expenditure Policy is set out in Attachment 3.

The Company's financial performance in 2012 was as follows:

| | 2012 GOAL | 2012 ACTUAL |
|---|--------------|----------------|
| Net Income Unadjusted (US\$ million) | 29,425 | 35,020 |
| Net Income Adjusted for pension assets (US\$ million) | 29,425 | 23,947 |

d. Debt Policy

The Company's debt policy is a Board Approved Policy which is set out in Attachment 4. A summary of the main provisions are as follows:

- The debt financing policy seeks to establish guidelines in connection with any indebtedness to be incurred by the Company. The Company may obtain debt financing from (i) any reputable lending or financial institution; or (ii) the issuance of privately placed or publicly registered note or security; or (iii) any individual, company or other body, including any Shareholder or Affiliate thereof, which may be approved by Unanimous Board Approval.
- However, such indebtedness so incurred shall:
 - (i) be in accordance with the Shareholders Agreement and the relevant Annual Budget;
 - (ii) be obtained on commercially reasonable terms; and
 - (iii) not cause the Company's debt/equity ratio at any time to exceed 1.5
- Such indebtedness must be:
 - (a) necessary for the purposes of enabling the Company to meet its obligations under any applicable laws or regulations;
 - (b) otherwise required in order to enable the Company to manage its Business efficiently; or
 - (c) in furtherance of, or otherwise for the purpose of expanding, the business of the Company as may be approved by the Majority Shareholders from time to time.

e. Investment Policy

The Company's investment policy is a Board Approved Policy which is set out in Attachment 5. A summary of the main provisions are as follows:

- The Company shall invest its liquid assets in the following types of investments only and then in accordance with prudent business practice:
 - (i) investment grade marketable direct obligations issued or guaranteed by the Government of the United States of America or the Government of the Republic of Trinidad and Tobago or issued by an agency of either of the foregoing and backed by the full faith and credit of any of the foregoing;
 - (ii) investment grade marketable direct obligations issued by any state of the United States of America;
 - (iii) investment grade commercial paper and bonds issued by corporations organized under the laws of any state of the United States of America or the Republic of Trinidad and Tobago; or
 - (iv) Eurodollar certificates of deposit or time deposits or bankers acceptances issued by any commercial bank organized under the laws of the United States of America or any state thereof or the Republic of Trinidad and Tobago having combined capital and surplus of not less than US\$50,000,000;
 - (v) and, in the case of paragraphs (i) to (iv) above, having a final maturity of one year or less from the date of acquisition by the Company.

- The investments to be made by the Company (other than the temporary investment of its reserves and cash on current account) in any Financial year will be set out in the Annual Budget for such year as approved and amended in accordance with the Shareholders Agreement.

- Save in exceptional circumstances the Company shall not have any single investment or investments of the type described in paragraphs (i) to (iv) above in any one organization which, whether individually or in the aggregate, comprises more than 40% of the cash, reserves and other liquid assets of the Company. If there are such exceptional circumstances, the Management Committee shall in any event ensure that the holding in excess of the 40% limit does not continue for more than 3 months.

f. Internal Audit Function

The Company's internal audit function is outsourced to an auditing firm and reports to a sub-committee of the Board, the Internal Audit Oversight Committee. A copy of the Terms of Reference is set out in Attachment 6. The main findings on audits of the Company for the year 2012 are as follows:

- *IT Maturity Assessment* – the assessment would be used as part of the development of the Strategic IT Plan
- *Data Loss Prevention Report* – the Company would embark on a programme to address the recommended data loss prevention strategies for data-in-motion, data-at-rest and data recovery.
- *Contracting Review*
 - That the outdated Purchasing and Materials/Tendering and Contracts policies would be reviewed and updated by management incorporating the recommendations;
 - That in relation to the checks on the system (other than the scheduled Internal Audit reviews), regular monthly reports would be required from the Plant Managers and Procurement on the functioning of the system.
 - The quality of the self-audits would be improved with training of personnel on the applicable processes.
- *Inventory Review*
 - Delays in updating Maximo would be addressed by monitoring of compliance with company policy
 - Obsolete items should be written off in a more timely manner.

5. Human Resource Development Plan

- **Organisational Development - Staffing and Structure**

The revised organisation structure to support the goals and strategies was implemented in 2012 with focus on Asset Integrity and Assurance Services. This was complemented with a robust program of training and development and exposure to best practices and industry groups. Management and executive level staff were exposed to development programs with the aim of building the appropriate suite of leadership and management competencies that best suits the organisation's realities.

Staffing management was a high priority during the review period with emphasis on having the resources to achieve asset management and improved equipment reliability. The Company continued to utilise its internal resources to meet its staffing needs, hiring from external sources only when absolutely necessary.

In March 2012, the Company concluded negotiations with the SSA and OWTU and turned its attention to aligning all staff to achieve the Company's goals by extending the performance management and appraisal system to the general, unionised staff level.

- a. Organisational Establishment**

The organizational establishment for 2012 is attached as Attachment 7.

As at the end of December 31, 2012 the organization establishment comprised the following:

HEAD COUNT AS AT DECEMBER 2012

| Department | Approved Establishment | | | Actual Head Count | | | Variance | | |
|----------------------------------|------------------------|------------|-----------------|-------------------|------------|-----------------|------------|-----------|-----------------|
| | No. of Staff | | Total Headcount | No. of Staff | | Total Headcount | Mgmt | Non-Mgmt | Total Headcount |
| | Mgmt | Non-Mgmt | | Mgmt | Non-Mgmt | | | | |
| Head Office | | | | | | | | | |
| Office of the GM | 1 | 1 | 2 | 1 | 1 | 2 | 0 | 0 | 0 |
| Human Resources & Administration | 6 | 6 | 12 | 6 | 6 | 12 | 0 | 0 | 0 |
| Business Development | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 1 |
| Project Management Office | 8 | 8 | 16 | 8 | 6 | 14 | 0 | -2 | -2 |
| Legal & Regulatory | 4 | 2 | 6 | 3 | 2 | 5 | -1 | 0 | -1 |
| Operations | 6 | 2 | 8 | 5 | 2 | 7 | -1 | 0 | -1 |
| Information Resources | 3 | 4 | 7 | 3 | 4 | 7 | 0 | 0 | 0 |
| Finance | 8 | 5 | 13 | 5 | 6 | 11 | -3 | 1 | -2 |
| Total: | 36 | 28 | 64 | 31 | 28 | 59 | -5 | 0 | -5 |
| Purchasing & Materials | 1 | 6 | 7 | 1 | 4 | 5 | 0 | -2 | -2 |
| Point Lisas | 16 | 117 | 133 | 7 | 123 | 130 | -9 | 6 | -3 |
| Penal | 16 | 77 | 93 | 12 | 84 | 96 | -4 | 7 | 3 |
| Port of Spain | 16 | 113 | 129 | 11 | 118 | 129 | -5 | 5 | 0 |
| | | | | | | | | | |
| Plant Total: | 49 | 313 | 362 | 31 | 329 | 360 | -18 | 16 | -2 |
| | | | | | | | | | |
| Total Head Count | 85 | 341 | 426 | 62 | 357 | 419 | -23 | 16 | -7 |

| | Contract Employees | Present Trainees | | | Total |
|------------------------|--------------------|------------------|----------|-----------|----------|
| | | Engineers | MIC | Gen/Other | |
| Head Office | 2 | 0 | 0 | 0 | 2 |
| Purchasing & Materials | 1 | 0 | 0 | 0 | 1 |
| Penal | 0 | 0 | 0 | 0 | 0 |
| Point Lisas | 0 | 0 | 0 | 0 | 0 |
| Port of Spain | 2 | 0 | 0 | 0 | 2 |
| TOTAL | 5 | 0 | 0 | 0 | 5 |

b. Category of Employees

The Company employs the following categories of employees:

(1) Management Professionals

(2) Senior Staff Association Members

(3) Oilfields Workers Trade Union Members (registered trade union)

c. Career Path Systems

The Company supports the development of its personnel and where applicable has potential for career development. The Company has a Career Planning Policy and Training and Development Policy, both of which are attached in Attachment 8.

Career planning in the technical areas is centered on structured competency assessment. Technical training and refresher training support this progression utilizing the Prior Learning Assessment system. There is also an Engineer in Training and Generator Trainee programme to ensure that new graduates and technical vocational trainees are trained and competent in power plant operations. The formal trainee programmes in 2012 benefitted 5 persons.

The Company recognises that effective management is essential to staff retention. There is a need for managers to create and sustain employee engagement, manage change effectively, and conduct succession planning in a proactive systematic way.

Managers are therefore required to attend training courses aimed at building effective teams and healthy workplace climates conducive to employee commitment, which courses include:

- Developing competence in people skills (soft skills)
- Building cohesive and productive teams
- Developing approaches to effective work teams
- Assessing and developing strategies for organisational problems
- Reviewing change management approaches
- Doing strategic planning

- Developing approaches to enhanced competence in engaging and motivating employees
- Communicating effectively in a variety of situations

To address the issue of current managers retiring or leaving for other opportunities, PowerGen's training and development plans are aligned to meet the needs of employees. To that end, staff development entails the following:

- individual external courses focused on needs of employees; and
- internal department-specific custom training services.

d. Performance Assessment/Management Strategies

Since inception, the Company has implemented performance assessment systems. The applicable policies on Performance Evaluation and Performance Management are attached in Attachment 9.

e. Promotion- selection procedures

The Company's Recruitment and Selection policy is attached as Attachment 10.

f. Employee Support Services

The Company has an active Employee Assistance and Wellness Programme and the policy is attached as Attachment 11. Employee support includes counseling, psychological support for employees, anti-addiction support and extends to families where persons have encountered traumatic situations including family issues.

The Employee Education Assistance Programme is also a key employee support service. The policy is attached as Attachment 12. This Programme provides employees with financial support for formal education and training. Offering employees continuing education opportunities leads to a well-trained work force. It also allows eligible employees to achieve professional growth

and greater job satisfaction by enrolling in undergraduate, graduate or Ph.D. degree or job-related courses.

The Computer Literacy Programme is another avenue for professional development that PowerGen employees can utilise. The policy is attached as Attachment 13. The Programme allows employees to access a computer allowance through various options.

6. Procurement Procedures

- a. Open tender**
- b. Selected tender**
- c. Sole tender**

The Company has a Tenders Procedure and a Board Approved Purchasing Policy which governs the procurement of goods and services, please see Attachment 14. The list of tenders issued for the year 2012 and their values are attached at Attachment 15.

7. Public and Community Relations

a. Client and Public Access to services

The Company has one customer (by law, PowerGen is only allowed to generate bulk electrical power and sell to T&TEC) and therefore there is no client or public access to services.

b. Community and Stakeholder Relations

The Company is one of the largest sponsors of youth cricket in the country through its support of the PowerGen Secondary Schools Cricket League and also sponsors the Annual Special Children's Sports Day for all special schools. It is an active provider of scholarships to primary and tertiary level students as well as its employees are leaders in community based outreach projects.

The Company also sponsors the PowerGen Cricket Club which is a community based club which both plays competitive cricket and provides training and support to young sportsmen and women in the community.

The Company's local partners would include the Trinidad and Tobago Cricket Board (for the youth cricket programmes); and the University of the West Indies, the National Centre for Persons with Disabilities, YTEPP, the National Energy Skills Center (for educational scholarships).

The Company's board approved Philanthropic Policy is attached as Attachment 16.

c. Strategic Partnerships (local, regional, international)

PowerGen has no strategic partnerships with other local, regional and international parties.