



**Power Retail Corporation
trading as Jacana Energy
Statement of Corporate Intent
2015-16**

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1. Highlights and key challenges

Jacana Energy is a Government Owned Corporation (GOC) which commenced operations on 1 July 2014.

In the first year of operations Jacana Energy has:

- Delivered the Government's January 2015 price increase for mass market customers
- Introduced a Time of Use (TOU) tariff for domestic customers
- Improved the time taken to respond to customers calls made to the call centre
- Retained a number of large Commercial and Industrial (C&I) accounts
- Won a large C&I customer back from a competitor
- Introduced the Net Promoter Score (NPS), an industry best practice measure, to drive further improvement in customer service
- Established and promoted the Jacana Energy brand
- Established commercial, contractual arrangements with its major suppliers
- Brought key functions in-house to provide enhanced customer service
- Built a strong leadership team.

These highlights have been achieved against the backdrop of significant operational and structural challenges.

These challenges include:

- A lack of access to reliable financial and operational information
- Building a common understanding of the role of different market participants in the restructured industry
- A lack of clarity of the economic cost of the Community Service Obligation (CSO)
- Limitations of dated Information Technology (IT) systems
- Competition to traditional grid supplied electricity from alternatives such as roof-top solar
- Cost pressures from "green schemes" such as the Renewable Energy Certificate (REC) scheme and the solar Feed in Tariff (FIT).

Furthermore, the process of structural separation has identified a number of key issues which were previously not well understood.

The fundamental structural challenge Jacana Energy faces is a gross margin which is not sufficient to cover its operating costs as well as provide an appropriate sustainable return to the Territory on its investment. Jacana Energy's retail costs compare favourably with other energy retailers however wholesale costs and network charges combined account for a greater proportion of costs than in other markets (refer table below). This difference is particularly significant given the typically small retail business margins.

Percentage of Revenue	Wholesale Energy	Network Costs	Retail Costs	Retail Margin
Northern Territory**	58	35	6	1
New South Wales*	37	51	6	5
Queensland*	42	49	4	5
South Australia*	44	43	8	5
Tasmania*	43	49	5	3
ACT*	45	43	7	5

*AER, State of the Energy Market, Chapter 4, 2010

** Based on Jacana Energy Statement of Corporate Intent (SCI) numbers

A key challenge for Jacana Energy is that it has limited direct control over its major costs. Jacana Energy is a price taker for generation while its network and REC costs are set by Regulators.

In addition Jacana Energy can only directly influence 22% of its revenue base through setting prices for its contract customers. Non-contract pricing and other revenue streams are set by the Government.

The key factors which contribute to Jacana Energy's low gross margin include:

- The price setting process for mass market customers does not allow for the full recovery of all relevant costs including generation, network charges and "green" costs nor for an economic return
- Costs such as RECs and the solar FiT are not adequately captured in the CSO
- Jacana Energy has inherited a significant loss making contract.

There are a number of steps which can be taken to address these structural issues and put Jacana Energy on a sound financial footing. These include:

- Identifying the true economic cost of the CSO
- Introducing a competitive wholesale market
- Ensuring that the approach to setting retail prices includes the pass through of all relevant costs
- Maintaining Jacana Energy's cash position following any changes to wholesale payment arrangements with the introduction of the competitive wholesale energy market.

Jacana Energy looks forward to working with the Government to address these key issues and to successfully deliver the Government's reform objectives for the benefit of all of the Territory's energy consumers.

On the following pages we outline our Objectives, Strategies and Material Risks for 2015/16 through to 2018/19.



Noel K Faulkner
Chairman



Stuart Pearce
Chief Executive Officer

2. Jacana Energy Objectives

Jacana Energy's objectives are derived from two key sources:

- The Government Owned Corporations Act (GOC Act)
- Jacana Energy's Strategic Planning process.

The GOC Act specifies two objectives for Government Owned Corporations which are to:

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

In addition, Jacana Energy has developed the following Statement of Purpose, Core Values and Strategic Business Objectives

Statement of Purpose

Our purpose is to create value now and into the future by delivering seamless energy related solutions to meet the needs of our customers, stakeholders and shareholder.

Core Values

We operate with **integrity**.

We drive **innovation** for our business.

We embrace **diversity**.

We deliver as a **team**.

We are passionate about our employee's **well-being**.

Strategic Business Objectives

1. Achieve financial sustainability
2. Deliver superior customer experience
3. Develop a known and trusted brand
4. Build a team of high performing and engaged people
5. Become a trusted partner with our key stakeholders.

With these objectives in mind Jacana Energy's focus for the first phase of operations has been to build a standalone energy retail business which has involved:

- Establishing a board, executive management team and hiring key staff
- Delivering improvement in customer service performance
- Setting up commercial, contractual arrangements with key suppliers
- Building our own brand and identity
- Developing a commercial focus.

The second phase of Jacana Energy's evolution will see a focus on consolidating for growth:

- Strengthening its billing, credit management and customer service capability
- Consistently delivering a high level of customer service.

The third phase of Jacana Energy's development will see a greater focus on new products and services including:

- Modern energy products and prices which put customers in control of their energy use
- Online services to improve the customers experience
- Self-service options to make it more convenient for customers.

These objectives are supported by specific business strategies and performance targets (which are outlined in Section 6 - Strategies to Improve Financial Performance).

3. The nature and scope of activities undertaken by Jacana Energy

The nature and scope of our activities

Our key functions include:

- Supplying retail energy and energy services to our business and residential customers
- Facilitating competition between generators so that we can drive down energy costs
- Purchasing wholesale energy in bulk, managing the risk of this and passing the benefit on to our customers
- Acting as the consumer advocate to make it easier to deal with other industry participants
- Using customer insight to develop a range of retail energy products and services to meet different customer needs
- Supporting our larger customers and solving their energy needs by providing account management services
- Providing our customers with timely and accurate billing them with a variety of payment options available across a range of convenient channels
- Delivering high quality, efficient customer service to solve customer queries and problems.

Where we fit in the electricity supply chain

Our role is to look after our customers' electricity needs and to act as first point of contact for retail electricity matters. We are the principle interface with customers and sit at the customer end of the electricity supply chain.

Our role is to purchase electricity in bulk from generators and turn this into a range of retail products to meet our customers' needs. We arrange connection of electricity to our customers' properties, deliver timely and accurate billing, provide high quality and efficient customer service and develop products and convenient payment options to help customers manage their electricity costs.

As an electricity retailer, we don't generate electricity, distribute electricity or manage poles and wires. We sell electricity to customers at the meter and related products as well as collect payments from customers.

Jacana Energy also supports other industry participants by carrying the customer credit risk. Jacana Energy pays its wholesale costs and network charges even if it doesn't recover the full revenue from its customers.

Unlike generation and distribution (which are asset intensive businesses) electricity retailing is characterised by very few assets and very low margins. One of the key success factors in electricity retailing is cash-flow planning and management.

Small changes to key costs such as generation and distribution charges or changes to payment and collection terms can have a major impact on the financial viability of a low margin business such as Jacana Energy.

Where we operate

Jacana Energy is the electricity retailer for urban and rural centres of the Northern Territory and minor communities along the Stuart Highway. Jacana Energy provides energy for over 80,000 homes and businesses in the following regions:

- Darwin (city, suburbs and surrounding rural areas, including Palmerston, Batchelor and Adelaide River)
- Katherine (township, suburbs and surrounding rural areas, including Pine Creek, Larrimah and Mataranka)
- Tennant Creek (township, suburbs and surrounding rural areas)

- Alice Springs (city, suburbs and surrounding rural areas)
- Borroloola
- Timber Creek
- Daly Waters
- Elliott
- Ti Tree
- Yulara
- Kings Canyon.

4. Materials risks

Risk management is fundamental to organisational success and sustainability. Jacana Energy aims to have risk management practices embedded and integrated into our business processes, with engagement at all levels within Jacana Energy to minimise risks in all of our activities. Certain specific risks are covered by insurance.

Control systems have been, and continue to be, developed to ensure that material strategic, operational, legal, commercial and financial risks are identified, assessed, addressed and monitored to enable Jacana Energy to achieve its objectives.

Jacana Energy has focussed in its first nine months on the identification of strategic risks and associated mitigation strategies. Our Risk Management Plan is being developed from the strategic level down and provides a formal base for Jacana Energy to assess, monitor and manage risks in a structured and systematic manner.

The Board requires Jacana Energy and its employees to conduct its activities in a manner that complies both with the law, delegated limits of authority and its code of conduct.

Controls exist at the Board, executive and management level and are designed to safeguard Jacana Energy's interests which include compliance with authority limits, work health and safety regulations, employment and competition and consumer law.

Jacana Energy has established an Audit and Risk Committee (ARC) to oversee its policies and procedures in relation to risk management. The ARC provides reports to the Jacana Energy Board and oversees the Risk Management Plan and reviews the effectiveness of key mitigation strategies.

Jacana Energy executives and management are responsible for identifying risk and implementing strategies to mitigate them. Management reports to the ARC on how the risks are being managed effectively.

Jacana Energy also has commenced an internal audit function utilising both internal and external resources. The internal audit function has direct access to the ARC Chair and management and has the right to seek any information required to effectively perform its function. The ARC Charter is available on the website.

5. Strategies to minimise material risks

Material risk	Strategies to minimise material risks
Structural issues compromise Jacana Energy's financial sustainability	<ul style="list-style-type: none"> • Work with the Department of Treasury and Finance (DTF) to: <ul style="list-style-type: none"> • Understand the full economic cost of the CSO • Work with Government to: <ul style="list-style-type: none"> • Ensure that all relevant costs are considered when retail prices are set • Develop and implement a more cost-reflective solar FiT • Ensure that retail price paths and input price paths (T-Gen and PWC) are consistent with any proposed changes to the CSO • Ensure all key stakeholders are fully briefed on the financial impact to Jacana Energy of any proposed changes to the CSO • Build Jacana Energy's own accounting and finance capability
A key system or process fails and Jacana Energy cannot collect revenue for an extended period of time	<ul style="list-style-type: none"> • Ensure Jacana Energy is allocated adequate cash to cover its committed payment arrangements
Some of T-Gen's load is displaced by lower cost new entrants and T-Gen seeks to recover stranded costs through increasing its prices to Jacana Energy	<ul style="list-style-type: none"> • Jacana Energy to work with its Shareholder to seek market or regulatory protections prior to entering any new contracts
"Cherry picking" of profitable large accounts by other retailers (including some generators) putting a greater strain on the mass market and the required CSO	<ul style="list-style-type: none"> • Develop and implement a Customer Retention Plan and Strategy • Ensure cost base and operating model is competitive • Make sure competitors and new entrants are competing on a "level-playing field"
Uncertainty around the specific details of wholesale settlement arrangements and loss factors for the Interim Northern Territory Energy Market (I-NTEM) and Northern Territory Energy Market (NTEM)	<ul style="list-style-type: none"> • Ensure additional cash requirements will be available when wholesale settlement arrangements and loss factors are finalised • Ensure key stakeholders are aware of the cash-flow implications of altering payment arrangements between Jacana Energy and other market participants
Damage to Jacana Energy's reputation and brand from inadequate and inefficient service delivery	<ul style="list-style-type: none"> • Improve the operation of key retail functions as expeditiously as possible • Increase Jacana Energy's knowledge of the data, processes and system's via knowledge transfer • Closely monitor service provider delivery via regular KPI reporting and performance meetings

Material risk	Strategies to minimise material risks
Additional cost and complexity of introducing the National Energy Customer Framework (NECF)	<ul style="list-style-type: none"> • Work with the Government and other key stakeholders to understand the full cost and operational complexities associated with NECF • Ensure that the Northern Territory model is fit for purpose

6. Strategies to improve financial performance

The strategies and initiatives which Jacana Energy will implement to deliver its Objectives and improve its financial performance are detailed below.

Objective 1 - Achieve financial sustainability

Subject to resolution of the structural issues raised earlier in this SCI, Jacana Energy will strive to transform the business from a subsidised, loss-making business to a financially sustainable modern electricity retailer.

Key strategies to achieve this include:

- Introducing a targeted approach to C&I account management and retention
- Exploring opportunities to drive lower wholesale energy costs
- Driving operational efficiency and cost management throughout the organisation
- Identifying opportunities to reduce the cost to serve and revenue leakage
- Actively managing debt early in the collection cycle
- Building capability in accounting and finance to deliver reliable financial reporting
- Determining the true economic cost of the CSO
- Ensuring Jacana Energy's allocated opening cash provides sufficient cover for any unexpected increase in costs or reduction in revenue (e.g. billing system failure).

Objective 2 - Deliver a superior customer experience

We are a service business and customer needs drive how we deliver our services and how we support and interact with our customers.

Jacana Energy will deliver a superior customer experience by:

- Using customers insights to drive business improvement
- Transitioning to a more effective and efficient service delivery model
- Reengineering and simplifying the customer experience
- Developing online capability to change the service delivery model
- Consistently delivering high quality customer service, with a differentiated servicing capability
- Introducing new, flexible pricing structures
- Helping customers solve their energy issues.

Objective 3 - Develop a known and trusted brand

We will build advocacy and loyalty with our customers by developing a brand that resonates and fulfils their needs.

Jacana Energy will develop a known and trusted brand by:

- Introducing best in-class customer feedback, monitoring and reporting
- Building a brand centred on the customer
- Using customer insight to develop a range of retail energy products and services to meet different customers' needs
- Overhauling our online capability and building relevant content for our customers
- Promoting our brand to our customers through targeted channels.

Objective 4 - Build a team of high performing and engaged people

Jacana Energy will deliver on this objective by:

- Building an experienced and capable management team
- Developing and communicating our values and “way of doing things”
- Developing and implementing a performance management system which allows all employees to share in its success
- Establishing our own identity through our own Enterprise Bargaining Agreement, developing a “can-do” culture and establishing our own offices
- Lifting the level of business acumen
- Measuring employee engagement and building on insights delivered
- Developing an employee value proposition to enable the business to attract and retain talent.

Objective 5 - Become a trusted partner with our key stakeholders

We will drive a timely and relevant customer centric view to ensure outcomes and changes to the industry meet the needs of customers.

Jacana Energy will become a trusted partner with our key stakeholders by:

- Becoming the consumer advocate and proactive champion for change
- Identifying and establishing regular communication with key stakeholders
- Helping our key stakeholders solve difficult industry problems and issues
- Building a shared understanding with our key stakeholders about retail energy matters
- Helping our customers solve issues with other industry participants.

7. Capital investment plans

There are no approved capital investment activities planned at this stage. Jacana Energy is actively investigating opportunities to develop capability and deliver modern cost effective services without the need to acquire its own IT systems.

8. Abbreviations

C&I	Commercial and Industrial Segment
CPI	Consumer Price Index
CSO	Community Service Obligation
EBIT	Earnings Before Interest Tax
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
GOC Act	Government Owned Corporations Act
GWh	Gigawatt-hour
KPI	Key Performance Indicator
LGC	Large scale generation Certificates
kWh	Kilowatt hour
M	Million
MW	Megawatt
MWh	Megawatt-hour
NPAT	Net Profit after Tax
NPS	Net Promoter Score
NT	Northern Territory
NTG	Northern Territory Government
PV	Photovoltaic
PWC	Power and Water Corporation
RPP	Renewable Power Percentage
SCI	Statement of Corporate Intent
STC	Small scale technology Certificates
STP	Small scale technology Percentage
T-Gen	Territory Generation