Power Retail Corporation (Trading as Jacana Energy) Statement of Corporate Intent 2017-18

Public Version

Contents

1. Jacana Energy Objectives

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

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

The GOC Act specifies two objectives for Government Owned Corporations namely 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 to these two objectives, Jacana Energy's Strategic Plan includes its Statement of Purpose, Core Values and Strategic Business Objectives. These are detailed below:

Statement of Purpose

Jacana Energy's purpose is to create value now and into the future by delivering seamless energy related solutions to meet the needs of its 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 employees' **well-being**

Strategic Business Objectives

Jacana Energy's four strategic objectives are to:

- Deliver superior customer experience
- Become a valued and trusted brand
- Develop an engaged, motivated team with opportunities for growth
- Maximise value.

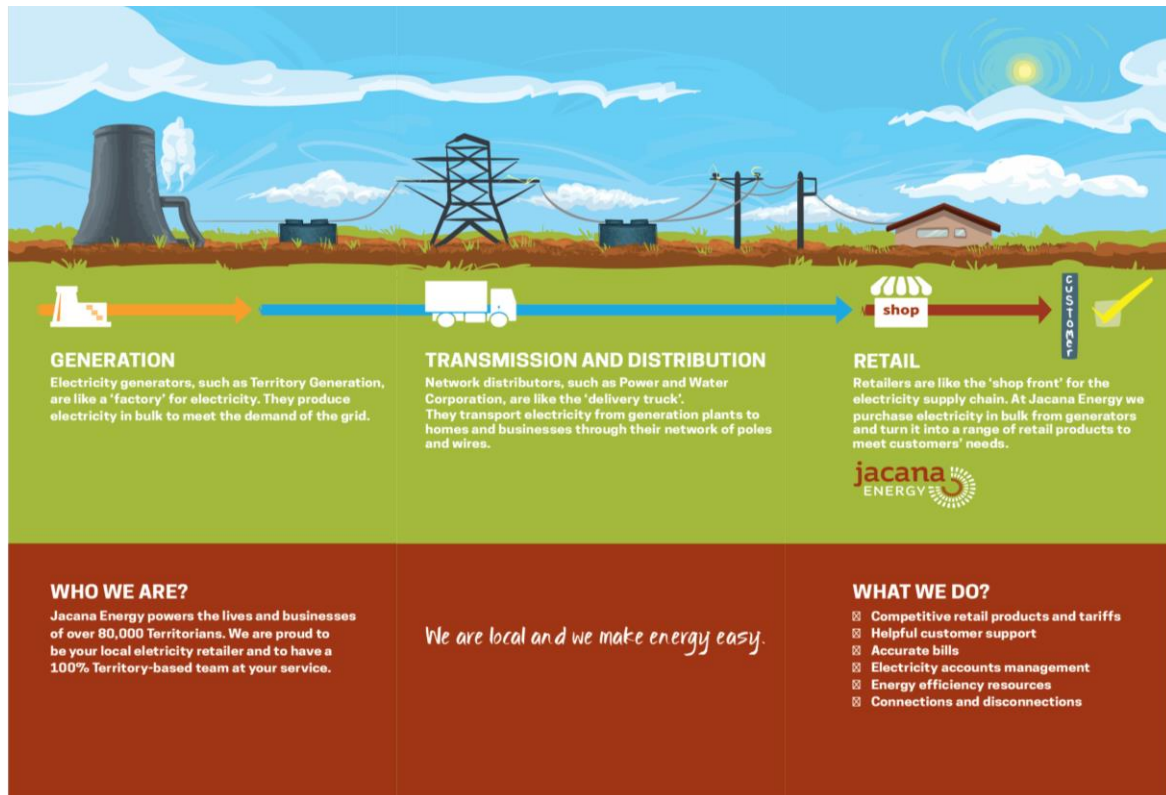## 2. The nature and scope of activities undertaken by Jacana Energy

Jacana Energy purchases wholesale electricity from generators and turns this into a range of retail products designed to suit its customers needs, facilitates connection of its customers to the grid, delivers timely and accurate power bills and provides a range of convenient payment options and efficient customer service.

Jacana Energy creates value for its customers by:

- Providing electricity services to over 80,000 business and residential customers
- Facilitating competition between generators to drive down wholesale energy costs
- Purchasing wholesale energy and renewable energy certificates, managing the risks associated with this and passing the benefit on to 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 larger customers with account management services
- Providing customers with timely and accurate billing and a variety of payment options across a range of convenient channels
- Delivering high quality, efficient customer service to solve customer queries and problems.

Where Jacana Energy fits in the electricity supply chain

Jacana Energy's role is to look after its customers' electricity needs and to act as the first point of contact for retail electricity matters. Jacana Energy is the principle interface with customers and sits at the customer end of the electricity supply chain as shown in the following diagram:

GENERATION
Electricity generators, such as Territory Generation, are like a 'factory' for electricity. They produce electricity in bulk to meet the demand of the grid.

TRANSMISSION AND DISTRIBUTION
Network distributors, such as Power and Water Corporation, are like the 'delivery truck'.
They transport electricity from generation plants to homes and businesses through their network of poles and wires.

RETAIL
Retailers are like the 'shop front' for the electricity supply chain. At Jacana Energy we purchase electricity in bulk from generators and turn it into a range of retail products to meet customers' needs.

WHO WE ARE?
Jacana Energy powers the lives and businesses of over 80,000 Territorians. We are proud to be your local electricity retailer and to have a 100% Territory-based team at your service.

We are local and we make energy easy.

WHAT WE DO?
☒ Competitive retail products and tariffs
☒ Helpful customer support
☒ Accurate bills
☒ Electricity accounts management
☒ Energy efficiency resources
☒ Connections and disconnections

Jacana Energy doesn't generate electricity, distribute electricity or manage poles and wires.

Jacana Energy also supports other industry participants by carrying customer credit risk. That is, 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 cost 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.

A key challenge for Jacana Energy is that it has limited direct control over its major costs such as generation and network costs which between them represent 90% of costs. Jacana Energy is a price taker for generation while network charges are, for the most part, set by regulators.

Jacana Energy can directly influence its operating expenditure however this represents only 3% of its total costs.

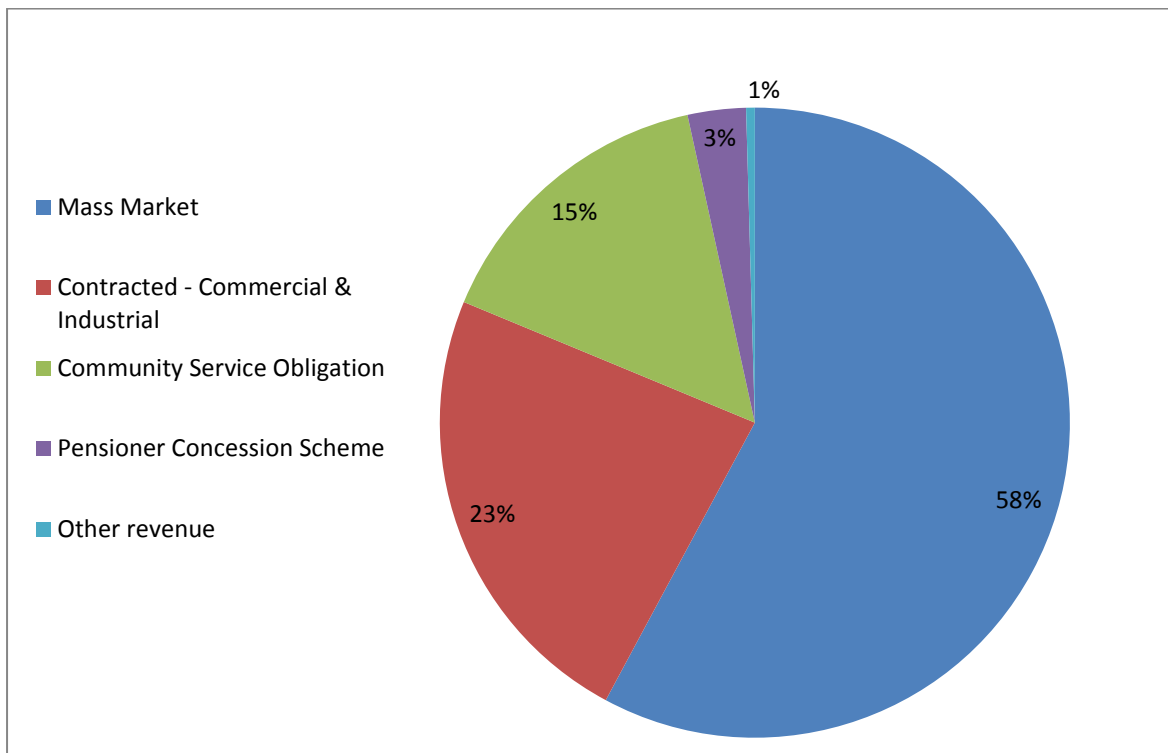The chart below provides a breakdown of Jacana Energy's costs.

Costs 2017-18
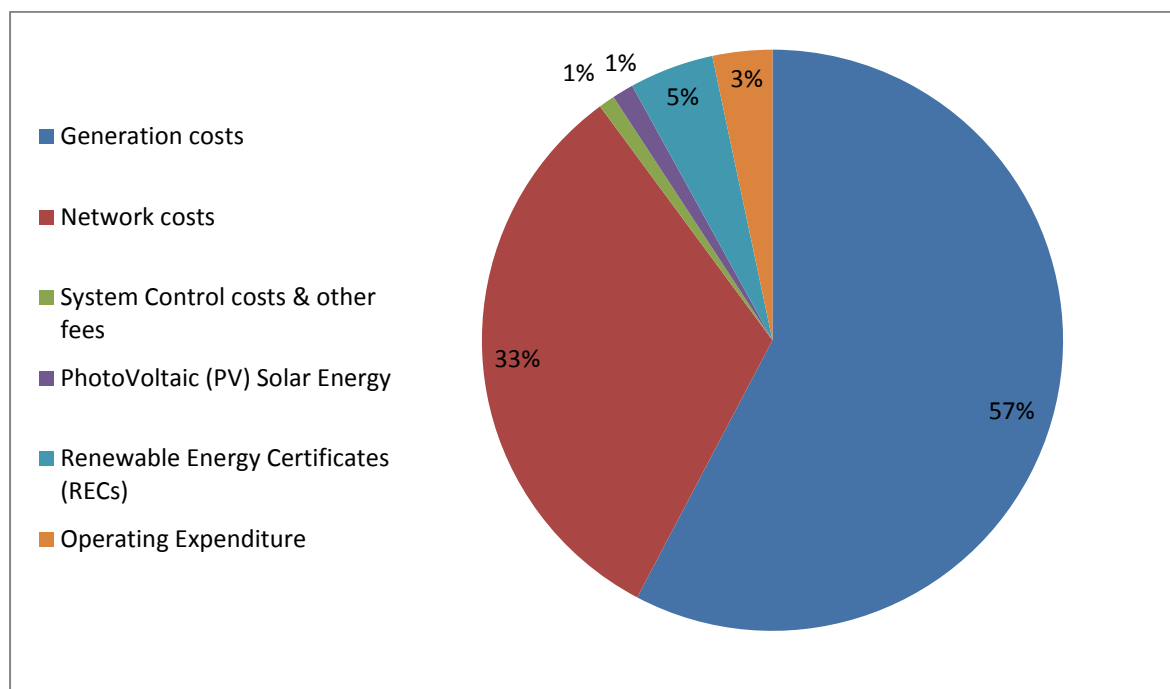
Jacana Energy also has little direct influence over its revenue. Whilst it is directly responsible for the pricing of its contracted Commercial & Industrial (C&I) customers, these represent only 23% of its revenue. Non-contract pricing and other revenue, which account for 77% of Jacana Energy's revenue, are set by the government.

A breakdown of Jacana Energy's revenue base is provided in the chart below.

Revenue – 2017-2018

Pie chart legend:
- Mass Market — 58%
- Contracted - Commercial & Industrial — 23%
- Community Service Obligation — 15%
- Pensioner Concession Scheme — 3%
- Other revenue — 1%

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.

3. Key strategies to improve financial performance

As mentioned previously, Jacana Energy has set itself four strategic objectives in its Strategic Plan, these are to:

1. Deliver superior customer experience

2. Become a valued and trusted brand

3. Develop an engaged, motivated team with opportunities for growth

4. Maximise value

The following section provides an overview of the strategies and initiatives to support each of these objectives and ultimately improve financial performance.

Strategic objectives

Strategic Objective 1 - Develop a Superior Customer Experience

Strategies	Initiatives
Deliver a consistent and positive customer experience	• Refresh intranet, internet and website • Develop a smart metering strategy • Develop and implement best practice business processes • Introduce differentiated market offerings
Understand our customers' needs	• Introduce regular customer satisfaction tracking • Review our hardship policy with input from the Customer Consultation Council
Develop and provide alternative solutions	• Introduce customer consumption analysis and development of customer tools • Create a culture which recognises and rewards product and service innovation • Implement a streamlined, rigorous business development process • Exploration of markets and develop a go-to-market strategy • Explore opportunity for growth through Northern Australia Development Office (NADO)
Provide transparency in key processes	• Provide customer self-service capability • Use media channels such as the internet to provide advice on key customer touching processes

Strategic Objective 2 - Become a Valued and Trusted Brand

Strategies	Initiatives
Ensure our vulnerable customers are looked after	• Develop a vulnerable customer strategy • Develop and promote payment plans and the option of more frequent billing • Improve the effectiveness of partnerships with 3rd parties • Development and renewal of Hardship Program • Enhance management of the pre-payment meter-token process
Embed a customer centric culture in our business	• Recognise and reward the provision of exceptional customer service
Align sponsorship & donations strategy with brand	• Finalise brand value proposition • Finalise sponsorship plan

Strategic Objective 3 - Developed and engaged, motivated team with opportunities for growth

Strategies	Initiatives
Attract and retain the best people	• Undertake a skills inventory and resource analysis, improve internal skills through development • Consider alternative resource models i.e. partnerships • Refine resource and recruitment planning • Develop new Enterprise Bargaining Agreement
Ensure professional development aligned with strategy	• Identify and source efficient and effective cross organisation training & roll out training program
Right culture: customer centric, innovative, flexible	• Design and deliver a series of culture development workshops to create a culture aligned with strategy • Develop and implement a detailed communications plan
Align structure with strategy	• Ensure structure is consistent with capability assessment • Align role descriptions with capability assessment and culture

Strategic Objective 4 - Maximise Value

Strategies	Initiatives
Flexibility in how we deal across the supply chain	• Develop an efficient operational interface with PWC as the network provider • Promote wholesale market reform • Develop a long-term wholesale procurement plan inclusive of renewables • Find low cost, alternate generation sources • Work with DTF to develop new CSO funding model • Build network reconciliation capability and reduce revenue leakage • Build wholesale reconciliation capability and reduce revenue leakage
Minimise costs to serve	• Promote customer self service • Benchmark and implement fit for purpose systems, processes, contracts, metrics and costs • Identify opportunities to reduce accommodation costs • Encourage uptake of low cost service channels • TSA negotiation • Develop a service channel strategy • Review IT strategy
Establish a robust Risk & Compliance framework	• Create a Companywide Business Continuity Plan • Develop a new C&I customer contract
Reduce Other Operating Costs	• Improve credit processes and reduce Bad Debt Write-off
Retain Profitable Load	• Targeted C&I retention program
Enhanced Financial Reporting and Processes	• Improved Financial Reporting with the implementation of the Pronto General Ledger

4. Material Risks

Jacana Energy has a Risk Management Framework designed to proactively and systematically identify, assess, monitor and manage material risks. The Board has ultimate responsibility to regularly and effectively review and manage the Risk Management Framework with the support of the Audit and Risk Committee. Risk management is fundamental to Jacana Energy's success and sustainability. Jacana Energy aims to have risk management practices embedded and integrated into business processes, with engagement at all levels within Jacana Energy to minimise risks in all activities.

A key component of the Risk Management Framework are Jacana Energy's Risk Appetite Statements (RAS) which define the nature and level of risk that Jacana Energy is willing to accept in relation to the key components of service delivery and enabling activities in the pursuit of its strategic objectives. The RAS provides a means of ensuring the Board, Leadership Team and employees are in alignment with regard to the level of risk considered acceptable in undertaking business operations and Jacana Energy making risk assessed judgements.

Through the RAS Jacana Energy defines the risk parameters associated with conducting its business in a commercial manner and acting with financial prudence and efficiency. The RAS reflect Jacana Energy's focus on customer and stakeholder services and defines its aspiration to implement a long-term financial strategy that provides a sustainable return to the government and is averse to actions that may impact on projected targets and outcomes.

Jacana Energy's Risk Management Framework operates alongside internal controls. Controls exist at the Board, executive and management level and are designed to safeguard Jacana Energy's compliance with authority limits, work health and safety and other legislation and regulations, employment and competition and consumer law.

Control systems continue to be developed to ensure that material risks including strategic, operational, legal, commercial, technological, financial and regulatory risks are identified, assessed, addressed and monitored.

The Risk Management Framework is collaborative and involves Jacana Energy's employees, contractors and management conducting their activities in a manner that complies both with the law and delegated limits of authority.

The Audit and Risk Committee (ARC) has oversight of the risk management process and oversees policies and procedures in relation to risk management.

The ARC provides reports to the Jacana Energy Board and regularly reviews the effectiveness of the risk management framework and key mitigation strategies.

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

Jacana Energy has appointed an audit firm as independent internal auditor. The internal auditor provides an objective assessment to the Board regarding the adequacy, effectiveness and efficiency of Jacana Energy's risk management, control and governance processes.

The internal auditor and internal audit function have direct access to the ARC Chair.

Jacana Energy manages its strategic risks. These risks fall within the following material risks:

5. Strategies to minimise material risks

Material risk	Strategies to minimise material risks
Billing System – Transition Program Risk	• Formal project management, data management quality and testing, reconciliation using outsourced expertise third party to implement the system with the associated controls, expertise and capacity/capabilities. • Independent quality assurance stage gate and internal reviews
Financial Management – Transition Program Risk	• Formal project management, data management quality and testing, reconciliations using outsourced expertise third party to implement the system with the associated controls, expertise and capacity/capabilities. • External and internal reviews
Capability & Capacity Risk	• Identify and take action to appropriately address resourcing and capability requirements Succession Planning
Loss of Revenue – Competition Risk	• Develop a retention strategy and customer value proposition for all customer segments • Drive greater customer engagement through key account management. • Matching retail contracts with wholesale energy procurement arrangements • Leverage ROS capability to deliver better customer service • Offer new innovative products
Risk to Brand and High Quality Customer Service	• Maximise ROS features/capabilities • Develop a robust policy and procedures document to facilitate and assist vulnerable customers

Material risk	Strategies to minimise material risks
	• Develop robust policy and procedures regarding the disconnect process • Develop and drive an active customer centric culture • Develop and bring to market a variety of value adding products and services for all segments in line with customer insights/feedback
External Environment – Economy	• Encourage regular payments, bill smoothing • Review credit management strategy • Review hardship program
Regulatory and Legislative Change Risk	• Engage recognised industry specialists to provide services to assist management in formulating a CSO strategy • Proactive and regular engagement with stakeholders on Jacana Energy CSO strategy
Business Interruption	• Business Continuity Plan • Disaster Recovery Plan • Whole of industry disaster testing • Up to date and adequate insurance coverage
IT Security	• IT security policy • Secure NTG IT System Hosting • Rigorous due diligence in selection of IT partners • Up to date and adequate insurance coverage

6. Abbreviations

AER	Australian Energy Regulator
C&I	Commercial and Industrial Segment
CPI	Consumer Price Index
CSO	Community Service Obligation
DTF	Department of Treasury and Finance
EBIT	Earnings Before Interest Tax
GOC Act	Government Owned Corporations Act
KPI	Key Performance Indicator
LGC	Large scale generation Certificates
kWh	Kilowatt hour
M	Million
NEM	National Electricity Market
PV	Photovoltaic
PPA	Power Purchase Agreement
PWC	Power and Water Corporation
ROS	Retail Operating System
RPP	Renewable Power Percentage
STC	Small scale technology Certificates
STP	Small scale technology Percentage

Appendix A

Accounting policies

Jacana Energy's accounting policies comply with the requirements of the Government Owned Corporations Act, Australian Accounting Standards and International Financial Reporting Standards (IFRS).

The principal accounting policies adopted for 2017-18 will be consistent with those applied in the 2016-17 financial year.

Jacana Energy pays income tax in accordance with the National Tax Equivalent Regime administered by the Australian Tax Office.