

Draft decision

United Energy electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 10 – Victorian F-factor incentive scheme

September 2025

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10 Victorian F-factor incentive scheme

This attachment is the f-factor scheme draft determination for United Energy for the 2026–2031 regulatory control period. As noted in our final Framework and Approach (F&A) we will apply the f-factor to all Victorian distribution network service providers (DNSPs) as part of the distribution determination for the 2026-31 regulatory control period.¹

Background

The f-factor scheme is a regulatory instrument under the *National Electricity (Victoria) Act 2005*, which provides Victorian DNSPs with an incentive to lower the number of fire starts on their networks. The Victorian Government introduced the f-factor as one of several measures in response to the 2009 Black Saturday bushfires. Its objective is to reduce harm to human life and property by powerline-caused bushfires, without imposing additional costs on consumers.²

The current f-factor scheme incentivises a reduction in fire ignitions that pose the greatest risk of harm via performance against targets set for each DNSP by the Victorian government, expressed in terms of ignition risk units (IRUs).³ A DNSP's IRU target is derived from the 5-year moving averages of previously reported fire-starts, adjusted by factors relevant to that network, such as participation in regional fire-reduction schemes. Incentives and penalties are determined through an annual revenue adjustment calculated based on the difference between a DNSP's IRU performance target and its actual reported IRUs.

Clause 8(1) of the *National Electricity (Victoria) Act 2005 f-factor scheme order 2016* (the Order) provides that the AER must make an f-factor scheme determination in accordance with the Order for Victorian DNSPs in respect of each regulatory control period, and clause 8(4) provides that an f-factor scheme determination may be published as part of a distribution determination for the relevant regulatory control period.⁴ This attachment is the f-factor scheme determination for United Energy for the 2026–2031 regulatory control period.

Clause 9(1) of the Order specifies that an f-factor scheme determination must establish an f-factor scheme under which there is a revenue adjustment for each DNSP.

Clause 9(4) of the Order specifies that a separate revenue adjustment must be made for each DNSP for the 2019 regulatory year, and for each subsequent regulatory year, in accordance with the following formula:

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

¹ AER, *Final Framework and Approach - Victorian electricity distribution determinations 2026-31*, July 2024, p.19.

² [Department of Energy, Environment and Climate Action \(VIC\), Leading bushfire safety – f-factor Incentive scheme](#)

³ *National Electricity (Victoria) Act 2005 F-FACTOR SCHEME ORDER 2016 Order in Council*, 22 December 2016, section 8.

⁴ *National Electricity (Victoria) Act 2005 F-FACTOR SCHEME ORDER 2016 Order in Council*, 22 December 2016, section 8.

where -

- i. *Revenue adjustment* is the adjustment to the revenue for the relevant DNSP for the regulatory year;
- ii. *Incentive rate* is \$15,000;
- iii. *IRU target* is the IRU target applicable for the relevant financial year for the relevant DNSP, as published by the Victorian Government in accordance with the Order; and
- iv. *IRU amount* is the number of IRUs accrued in relation to the relevant distribution system in the relevant financial year, determined in accordance with clause 11 of the Order.

Revenue adjustment, Incentive rate, IRU target and IRU amount have the same meanings as prescribed by the Order.

Clause 11(1) of the Order requires the AER to calculate a DNSP's IRU amount (in accordance with a specified formula). Clause 11(2) states that in undertaking this task the AER may have regard to the reports, submissions and information specified under clause 12(1), which include Energy Safe Victoria (ESV) validation reports. Clauses 11(3) – (5) provide a framework for calculating the IRU amount where the AER considers that the reports, submissions and information specified under clause 12(1) cannot be used, or are not suitable to be used to determine the IRU amount.

The Victorian Government published the IRU targets for the 2025–2026 financial year for United Energy on 18 June 2025.⁵

Under clause 9(5), an f-factor scheme determination may specify how the revenue adjustment is to occur. For the avoidance of doubt and without limitation, the revenue adjustment may –

- a. be by way of a pass through;
- b. be by way of an annual adjustment to be included in the control mechanism for a distribution determination;
- c. be expressed as a percentage adjustment to revenue;
- d. take effect over more than one regulatory year; and
- e. take effect over more than one regulatory control period.

Clause 9(6) of the Order specifies that, for the purposes of a distribution determination, a revenue adjustment under an f-factor scheme is not revenue of, expenditure by, or a cost of a DNSP, unless the AER determines otherwise.

10.1 Draft decision

The AER's draft decision is to apply the f-factor incentive payments/penalties as a part of the 'f-factor' adjustment to the annual revenue requirement calculation formula.

As discussed above, clause 9(4) of the Order specifies that a separate revenue adjustment must be made for each DNSP for each regulatory year, in accordance with the formula:

⁵ Victorian Government Gazette No. G 26, Wednesday 18 June 2025.

$$\text{Revenue adjustment} = \text{Incentive rate} \times (\text{IRU target} - \text{IRU amount})$$

Under clause 9(5), an f-factor scheme determination may specify how the revenue adjustment is to occur. Pursuant to clause 9(5), this f-factor scheme determination specifies that the revenue adjustment for United Energy for the 2026–31 regulatory control period will form a part of the ‘I-factor’ adjustment to the annual revenue requirement calculation formula to be included in our final decision for United Energy for the 2026–31 regulatory control period.

The I-factor parameter is for annual total allowed revenue adjustments relating to a service provider's performance against relevant incentive schemes. The I-factor for a given regulatory year will account for relevant incentive scheme rewards and/or payments. For the Victorian distributors this factor captures the fire start incentive scheme. The fire start incentive scheme operates on a 3 year lag.

Please refer to attachment 12 – Control mechanisms for further details about the I-factor.

10.2 United Energy’s proposal

United Energy proposed to apply the f-factor scheme.

10.3 Submissions

No submissions were received on United Energy’s proposal to apply the f-factor scheme.

10.4 Assessment approach

The AER makes this draft decision based on the provisions contained in the Order.

10.5 Reasons for draft decision

We will continue our approach to make the revenue adjustment as an ‘I-factor’ component in the annual revenue requirement calculation formula. This is because this method is the most direct way to give effect to the f-factor results, as well as reflecting that the f-factor is an incentive scheme.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
distributor	distribution network service provider
ECA	Energy Consumers Australia
ESV	Energy Safe Victoria
F&A	framework and approach
IRU	ignition risk units