Draft decision

AusNet Services electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 7 – Service target performance incentive scheme

September 2025

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	30 September 2025	15

Contents

7 Service target performance incentive scheme

The National Electricity Rules (NER) set out that our regulatory determination must specify how any applicable service target performance incentive scheme (STPIS) is to apply to a distribution network service provider (DNSP) in the next regulatory control period (period).[1]

This attachment sets out our draft decision on how we will apply the STPIS to AusNet for the 2026–31 period.

AER's service target performance incentive scheme

Our distribution STPIS provides DNSPs with incentives to maintain and improve network reliability performance, to the extent that consumers are willing to pay for such improvements. The STPIS is also intended to ensure that DNSPs' service levels do not reduce as result of efforts to achieve efficiency gains.

The current version (version 2.0) of our STPIS[2] was published in November 2018 and will apply to all revenue determinations from that date.

Framework and approach to the application of STPIS

Our July 2024 Framework and Approach (F&A) stated that we intend to apply version 2.0 of the STPIS to AusNet in the 2026–31 period, noting that:

- the guaranteed service level (GSL) component of the STPIS will not apply as Victorian businesses remain subject to a jurisdictional GSL scheme which serves the same purpose.
- if Victorian businesses' proposed customer service incentive schemes (CSIS) include a similar performance measure, the telephone answering parameter of the STPIS will not be applied.

Further details and our reasoning are set out in our F&A.[3]

7.1 Draft decision

Clause 2.1(d) of the STPIS requires the AER to determine certain elements of the STPIS in distribution determinations to which it applies. Our draft decision is to apply STPIS 2.0 to AusNet in the 2026–31 period. Specifically, we will:

1 NER, clauses 6.3.2 and 6.12.1(i).

2 AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018 (AER, STPIS Version 2.0, November 2018).

3 AER, *AER - Final Framework and Approach - Victorian electricity distribution determinations 2026-31 - July 2024*, July 2024, pp. 17-18.

- apply the system average interruption duration index (SAIDI), system average interruption frequency index (SAIFI), momentary interruption frequency index event (MAIFI), and customer service (telephone answering and new connections) parameters
- segment the network according to the urban, short rural and long rural supply reliability categories
- set revenue at risk at ±5% of the annual forecast revenue
- apply the 2024 values of customer reliability (VCR) adjusted to December 2024 CPI to set the incentive rates for SAIDI, SAIFI and MAIFI[4]
- set performance targets based on AusNet's average performance
- apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets
- apply a major event day (MED) boundary of 2.8 standard deviations from the mean
- not apply the GSL component of the STPIS to AusNet as it remains subject to a jurisdictional GSL scheme.[5]

AusNet is required to submit the 2024–25 STPIS actual performance data in its revised revenue proposal for the STPIS targets and incentive rates to be approved in our final decision.

We have considered AusNet's revenue proposal, submissions raised by stakeholders and the F&A in reaching our draft decision. Our response to the matters raised by AusNet and stakeholders about the application of the STPIS are discussed below.

Table 7.1 and Table 7.2 present our draft decision on the applicable performance targets and incentive rates that will apply to AusNet for the 2026–31 period.

Table 7.1 Draft decision – AusNet's STPIS performance targets for 2026–31 period[6]

	Urban	Short Rural	Long Rural	Telephone answering
SAIDI (minutes)[7]	82.7418	177.8945	276.7090	N/A
SAIFI (interruptions)[8]	0.7519	1.3842	1.9971	N/A
MAIFI (interruptions)[9]	2.9395	4.8229	8.9323	N/A

4 AER, *Values of customer reliability – Final report on VCR values*, December 2024.

5 AER, STPIS Version 2.0, November 2018, clause 6.1(a).

6 As AusNet's 2024-25 performance data is not yet available, we have calculated targets for this draft decision using historical data for 4 years (2020-21 to 2023-24). For the final decision we will calculate targets using 5 years of data, including 2024-25 performance data. Performance targets in our final decision will also be adjusted for our final decision on capital expenditure for reliability improvement projects.

7 System Average Interruption Duration Index (SAIDI).

8 System Average Interruption Frequency Index (SAIFI).

9 Momentary Average Interruption Frequency Index (MAIFI).

	Urban	Short Rural	Long Rural	Telephone answering
Customer service - telephone answering (%)[10]	N/A	N/A	N/A	71.75[11]

Source: AER analysis.

Table 7.2 Draft decision – AusNet's STPIS incentive rates for 2026–31 period

	Urban	Short Rural	Long Rural	Telephone answering
ir – SAIDI	0.0167	0.0166	0.0066	N/A
ir – SAIFI	1.2278	1.4240	0.6069	N/A
ir – MAIFI	0.0982	0.1139	0.0486	N/A
Customer service - telephone answering (%)	N/A	N/A	N/A	-0.04

Note: ir is the incentive rate (expressed in a percentage per unit of the parameter).
Source: AER analysis.

7.2 Overview of proposal

AusNet's revenue proposal accepted our F&A position to apply version 2.0 of the STPIS in the 2026–31 period, but with several clarifications:

- *MED boundary*: AusNet has proposed to exclude catastrophic events from the calculation of the MED boundary in the 2026–31 regulatory control period. Our consideration of this proposal is set out at 7.4.2.
- *Customer service component (telephone answering parameter)*: AusNet has proposed that the telephone answering parameter should not apply in the forthcoming regulatory period and that it should be replaced with the CSIS. This is discussed at 7.4.3.
- *Revenue at risk*: In our F&A we proposed to set revenue at risk for each Victorian business within a range of ± 5%. AusNet has proposed to apply revenue at risk of ±4.5% for the STPIS. We discuss our draft decision in relation to revenue at risk in 7.4.1.
- *Performance targets*: AusNet has proposed reliability and resilience programs which it expects to result in improvement in supply reliability as part of its capex proposal. However, rather than adjusting the STPIS performance targets, AusNet has proposed to remove the expenditure associated with improved reliability from its proposed capex allowance. This is discussed at 7.4.2.

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10 Percentage of total calls to the fault line answered in 30 seconds. Time to answer a call is measured from when the call enters the call centre telephone system and is answered by a human operator.

11 We have calculated the telephone answering targets based on annual performance data provided by AusNet.

7.3 Assessment approach

We are required to decide how the STPIS is to apply to AusNet.[12] When making a distribution determination, the STPIS requires us to determine all performance targets, incentive rates, revenue at risk and other parameters under the scheme.[13]

7.3.1 Interrelationships

We must consider any other incentives available to the DNSP under the NER or relevant distribution determination in implementing the STPIS.[14] One of the objectives of the STPIS is to ensure that the incentives are sufficient to offset any financial incentives the DNSP may have to reduce costs at the expense of service levels.[15] For the 2026–31 period, the STPIS will interact with the capital expenditure sharing scheme (CESS) and the operating expenditure (opex) efficiency benefit sharing scheme (EBSS).

The reward and penalty mechanism under the STPIS (the incentive rates) are determined based on the average customer value for the improvement, or otherwise, to supply reliability (the VCR). This is aimed at ensuring that the DNSP's operational and investment strategies are consistent with customers' value for the services that are offered to them.

Our capex and opex allowances are set to reasonably reflect the expenditures required by a prudent and efficient business to achieve the capex and opex objectives. These include complying with all applicable regulatory obligations and requirements and, in the absence of such obligations, maintaining quality, reliability, and security of supply outcomes.

The STPIS provides an incentive for DNSPs to invest in further reliability improvements (via additional STPIS rewards) where customers are willing to pay for it. Conversely, the STPIS penalises DNSPs where they let reliability deteriorate. Importantly, the DNSP will only receive a financial reward after actual improvements are delivered to the customers.

In conjunction with CESS and EBSS, the STPIS will ensure that:

- any additional investments to improve reliability are based on prudent economic decisions, and
- any reduction in capex and opex are achieved efficiently, rather than at the expense of service levels to customers.

7.4 Reasons for draft decision

The following section sets out our detailed consideration on applying the STPIS to AusNet for the 2026–31 period.

7.4.1 Revenue at risk

Revenue at risk caps the potential reward and penalty for AusNet under the STPIS. Consistent with arrangements for the 2026–31 regulatory control period (where the CSIS

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12 NER, clause 6.12.1(i).

13 AER, STPIS Version 2.0, November 2018, clause 2.1(d).

14 NER, clause 6.6.2(b)(3)(iv).

15 NER, clause 6.6.2(b)(3)(v).

applies), AusNet has proposed revenue at risk of ±4.5% for the 2026–31 regulatory control period on the assumption that we accept its proposed CSIS (with revenue at risk of ±0.5%).

However, as discussed in Attachment 9 and in 7.4.3 below, our draft decision is to not accept AusNet's proposed CSIS, and to instead apply the customer service component of the STPIS. To this end, our draft decision is to apply the default revenue at risk for the scheme components in aggregate of ±5%. We consider that a ±5% limit is the appropriate balance between the incentives to maintain reliability versus the price impact to customers funding the reliability outcomes.

As discussed under 7.4.3, our draft decision is to apply the telephone answering parameter and introduce the new connections parameter of the customer service component. We propose that an aggregate revenue at risk of ±1% apply for the customer service component

Clause 2.5(b) of the STPIS allows a DNSP to propose, in accordance with clause 2.2, a different revenue at risk to apply where this would satisfy the objectives of the STPIS (described in clause 1.5).

Given that the above positions represent a departure from the current (2021–26) regulatory period, we encourage feedback on our proposal from AusNet and stakeholders.

7.4.2 Reliability of supply component

Applicable components and parameters

We will apply the unplanned SAIDI, unplanned SAIFI and unplanned MAIFI parameters under the reliability of supply component to AusNet's feeder segments for the 2026–31 period. Unplanned SAIDI measures the sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers. Unplanned SAIFI measures the total number of unplanned sustained customer interruptions divided by the total number of distribution customers. Unplanned MAIFI measures the total momentary interruptions divided by the total number of distribution customers.[16]

Exclusions

The STPIS allows certain events to be excluded from the calculation of the s-factor revenue adjustment. These exclusions include the events specified in the STPIS, such as the effects of transmission network outages and other upstream events. They also exclude the effects of extreme weather events that have the potential to significantly affect AusNet's underlying STPIS performance.

Major event day threshold – beta method

We accept AusNet's proposal to calculate the MED boundary using the 2.8 beta method. AusNet has maintained its MED boundary at 2.8 beta (instead of the scheme's minimum

[16] Sustained interruption means supply interruption longer than 3 minutes. Momentary interruptions are those supply interruptions lasting less than 3 minutes.

'safe harbour' of 2.5) since the STPIS was first introduced at the 2011-2015 regulatory control period.[17]

We did not receive any submissions specifically concerning AusNet's proposal to maintain its MED boundary at 2.8 beta.

Clause 2.2 of STPIS version 2.0 provides that where the scheme indicates, as part of its regulatory proposal a DNSP is permitted to vary the application of the scheme. Appendix D of the STPIS provides that a DNSP may propose, in accordance with clause 2.2, a MED boundary that is greater than 2.5 standard deviations from the mean.

In arriving at our draft decision, we examined whether a 2.8 beta remains appropriate for AusNet for the upcoming regulatory period.

In response to our information request on the issue, AusNet replied:

> In summary, the continued application of a 2.8 beta multiplier provides a more accurate reflection of network performance, supports the incentive-based framework of the STPIS, and ensures that the most extreme and uncontrollable events are excluded—without undermining the intent of the scheme.[18]

AusNet also provided supporting analysis to demonstrate that over the past 10 years, under a 2.5 beta threshold several events not representative of genuinely extreme or uncontrollable circumstances would have been classified as MEDs. These events did not classify as MEDs under the applicable 2.8 beta method.

After considering AusNet's response to our information request as well as undertaking our own analysis to compare outcomes for AusNet under both the 2.5 and 2.8 beta methods, we consider there to be no compelling case to change AusNet's MED boundary from the current 2.8 beta.

Catastrophic events

AusNet has proposed that the AER write into its distribution determination that catastrophic events be excluded from the calculation of its MED threshold in the 2026–31 regulatory control period.

We did not receive any submissions specifically concerning this component of AusNet's proposal.

The definition of an MED in Appendix D of version 2.0 of the STPIS refers to the 2003 version of the *Institute of Electrical and Electronics Engineers (IEEE) standard (1366-2003)*. This standard does not allow for the exclusion of catastrophic events prior to calculating the MED threshold.

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17 AER, *Victorian electricity distribution network service providers - Distribution determination 2011–2015*, October 2010.

18 AusNet response to *Information request #029 - Reliability capex and STPIS*, 28 May 2025

However, AusNet states that IEEE 1366-2012 allows for the exclusion of catastrophic events from the calculation of the MED threshold on the basis that IEEE 1366-2012:

> …outlines that extremely large daily SAIDI values can skew the distribution of performance (which is assumed to be Gaussian) and, when included in a MED threshold determined using a 5-year average, can cause a relatively minor upward shift in reliability metric trends. [19]

As AusNet points out in its proposal, it has previously raised with the AER the possibility of excluding catastrophic events from the calculation of its MED threshold (by applying IEEE 1366-2012). However, our view remains that it is not possible under the current version of the Scheme (version 2.0, published in November 2018) for the AER to exclude "catastrophic events" from the calculation of the MED boundary.

The definition of MED in Appendix D of the current version of the Scheme refers to the 2003 version of the IEEE standard which does not provide for catastrophic events to be removed from the calculation of the MED threshold. To apply a different version of the standard would require a change to the STPIS.

To this end, as an alternative to being able to exclude catastrophic events from its MED boundary calculation under version 2.0 of the STPIS, AusNet formally proposes that:

> …the AER reviews the STPIS in line with the distribution consultation procedures to move to a more recent IEEE standard (either the 2012 or 2022 version) which would allow for the exclusion of catastrophic events when calculating the MED threshold.

It is important to note that IEEE 1366-2012 (and IEEE 1366-2022) contemplates the matter of identifying what constitutes an MED. Specifically the standard states that:

> It is recommended that the identification and processing of catastrophic events for reliability purposes should be determined on an individual company basis by regulators and utilities since no objective method has been devised that can be applied universally to achieve acceptable results.

The AER rejected the proposal to exclude catastrophic events before applying the standard 2.5 beta method to define major events days as part of our 2018 Amendment to the STPIS. Our reasoning was:

> If we cannot identify a consistent measurement approach for the definition of a catastrophic event using multiple beta thresholds, as defined by the IEEE standard, we cannot simply adopt an arbitrary number. Hence, we will retain the current approach of using a 2.5 beta standard to define major events days without prior exclusion of catastrophic events. We require a uniform method that can be applied to all distributors consistently.[20]

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19 AusNet, *Electricity Distribution Price Review - 2026-31 Regulatory Proposal*, January 2025, p.309

20 AER, Final decision - Amendment to the Service Target Performance Incentive Scheme, November 2018, pp. 20-22

We have carefully considered AusNet's proposal. We remain of the view that for the reasons outlined above the Scheme as currently drafted requires the application of the IEEE 1366-2003 standard. However, we will continue to monitor whether developments in the IEEE 1366 standard may give rise to the need for a future review of the STPIS.

Performance targets

Clause 3.2.1(a) of version 2.0 of the STPIS specifies that the performance targets to apply during the regulatory control period must not deteriorate across regulatory years and must be based on the average performance over the past five regulatory years, modified by the following:

- exclusions under the scheme[21]
- any reliability improvements completed or planned where the planned reliability improvements are[22]:
  - included in the expenditure program proposed by the network service provider, or
  - proposed by the DNSP, and the cost of the improvements is allowed by the relevant regulator, in the DNSP's previous regulatory proposal or regulatory submission, and
  - expected to result in a material improvement in supply reliability.
- an adjustment to correct for revenue at risk[23]
- any other factors that are expected to materially affect network reliability performance.[24]

Performance target adjustments

AusNet has proposed reliability and resilience programs as part of its capex proposal for the 2026–31 regulatory control period, which it expects to result in improvements in supply reliability.

Reliability improvement projects

Clause 3.2.1(a)(1A) of the STPIS version 2.0 requires that the performance targets to apply for the period must be modified by any completed or planned reliability improvements where the planned reliability improvements are

- included in the expenditure program proposed by the DNSP in its regulatory proposal, or
- proposed by the DNSP, and the cost of the improvements is allowed by the relevant regulator, in the DNSP's previous regulatory proposal or regulatory submission, and
- expected to result in a material improvement in supply reliability.

In its proposal, rather than adjusting STPIS performance targets to account for planned reliability improvements, AusNet proposes removing the expenditure associated with improved reliability (as measured by the STPIS) from its capex forecast.

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21 AER, STPIS Version 2.0 clause 3.2.1(a)(1).

22 AER, STPIS Version 2.0 clause 3.2.1(a)(1A).

23 AER, STPIS Version 2.0 clause 3.2.1(a)(1B).

24 AER, STPIS Version 2.0 clause 3.2.1(a)(2).

AusNet considers that:

> this approach would provide greater financial benefits to our customers compared to an alternative approach of including the full capex amount for reliability-driven projects in our proposal and adjusting STPIS targets. [25]

AusNet also contends that:

> This approach addresses feedback from our Availability Panel that the forecast reliability benefits of our resilience and reliability programs should be accounted for holistically across our Revenue Proposal. [26]

However, in its independent report on AusNet's regulatory proposal, AusNet Coordination Group said:

> AusNet have accounted for the STPIS adjustments by making incremental reductions to capex rather than adjusting targets. We are not aware that AusNet has tested this decision with customers (noting that it is a relatively technical matter). AusNet's view is that this delivers customer benefits because the lower capex is "banked" by customers at the time of the project, while STPIS outcomes may take a year or two to become evident. While this seems reasonable, it seems more straightforward to adjust the STPIS targets, but this is ultimately a decision for the AER. [27]

The Scheme is clear that STPIS performance targets are to be adjusted based on expenditure associated with reliability improvements. We consider AusNet's proposed approach to be inconsistent with the Scheme. Therefore, we expect AusNet's revised proposal to adjust its STPIS performance targets in line with the forecast capital expenditure associated with reliability improvement projects. Please refer to Attachment 2 – Capital Expenditure for project details.

Table 7.1 shows AusNet's proposed performance targets for the 2026–31 regulatory period as provided in its regulatory proposal. We will adjust these performance targets in our Final Decision in line with our discussion above.

7.4.3 Customer service component

Telephone answering parameter

Our July 2024 F&A position was to apply the customer service (telephone answering) component of the STPIS for the 2026–31 period unless AusNet's proposed CSIS includes a similar performance measure. [28]

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25 AusNet, *Electricity Distribution Price Review - 2026-31 Regulatory Proposal*, January 2025, p.311

26 AusNet, *Electricity Distribution Price Review - 2026-31 Regulatory Proposal*, January 2025, p.311

27 AusNet Coordination Group, *Submission - Victorian electricity distribution proposals 2026-31*, May 2025, p.37

28 AER, *AER - Final Framework and Approach - Victorian electricity distribution determinations 2026-31 - July 2024*, July 2024, pp. 18.

AusNet has proposed to apply the CSIS for the 2026–31 regulatory period. One of the proposed parameters is First call resolutions (FCR), which is a similar performance measure to the customer service (telephone answering) component of the STPIS. However, as explained in detail at Attachment 9, our draft decision is to not accept AusNet's proposed CSIS, and to instead apply the customer service component (telephone answering parameter) of the STPIS for the 2026–31 regulatory period.

New connections parameter

One of the parameters also included in AusNet's proposed CSIS is Customer satisfaction with new connections. Noting that our draft decision is to not accept AusNet's proposed CSIS, we explain in detail in Attachment 9 that instead we intend to apply the existing customer service component (new connections parameter) at clause 5.1(a)(3) of the STPIS.

Clause 5.1(d) of the STPIS provides that the AER may require a DNSP to apply the new connections parameter of the STPIS during the regulatory control period where we consider it would satisfy the objectives of the STPIS.

Further, new connections is defined in the STPIS as:

> The connection of electricity supply to a new customer's premises on or before the date agreed to with the customer. For the 'customer service' component, this is expressed as a percentage of the total number of new connections.[29]

Customer service component – revenue at risk

Clause 5.2 of the STPIS discusses revenue at risk for the customer service component. Unless a DNSP proposes otherwise, the maximum revenue at risk for the customer service parameters in aggregate is ±1%, and for individual parameters is ±0.5%. [30]

Our draft decision is to apply revenue at risk of ±0.5% for the new connections parameter and ±0.5% for the telephone answering parameter, making an aggregate of ±1% revenue at risk for the customer service component. The total revenue at risk for the STPIS is ±5%.

Table 7.1 and Table 7.2 show the STPIS customer service (telephone answering) performance target and incentive rate applicable to AusNet in the 2026–31 period. We have calculated these targets based on annual performance data provided by AusNet.

However, the assessment of the new connections parameter is on-going. As discussed in Attachment 9, we are seeking stakeholder feedback and further information from AusNet regarding the availability of historical data to determine AusNet's service performance for new connections.

7.4.4 Incentive rates

The incentive rates applicable to AusNet for the reliability of supply performance parameters of the STPIS were calculated in accordance with clause 3.2.2. of version 2.0 of the STPIS.

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29 AER, STPIS Version 2.0 Appendix A, p.29

30 AER, STPIS Version 2.0 clause 5.2(a) and (b).

We used the formulae provided in Appendix B of version 2.0 of the STPIS and escalated the values to the December 2024 CPI value.[31]

Please see Table 7.2 for our draft decision incentive rates for AusNet for the 2026–31 period.

7.4.5 Value of customer reliability to calculate the incentive rates

Our F&A stated that we will apply version 2.0 of the STPIS in the 2026–31 period. Consistent with this, our draft decision is to apply the latest AER published VCR (escalated to the December 2024 CPI value) in calculating AusNet's incentive rates.

The VCR for network segments outlined in Table 7.3 were applied to calculate AusNet's incentives rates for the 2026–31 period.

Table 7.3 Value of customer reliability ($/MWh)

	Urban	Short Rural	Long Rural
VCR	35,857	35,857	35,857

Source: AER, *Values of customer reliability – Final report on VCR values*, December 2024, Table 20 *NEM-wide and regional VCR*. VCR values have been escalated to December 2024 quarter.

[31] AER, STPIS Version 2.0, November 2018; AER, *Values of customer reliability – Final report on VCR values*, December 2024.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
CSIS	customer service incentive scheme
DNSP	distribution network service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service levels
ir	incentive rate
MAIFI	momentary average interruption frequency Index
MED	major event day
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER or the rules	national electricity rules
opex	operating expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme
VCR	value of customer reliability