

Draft decision

United Energy electricity distribution determination

1 July 2026 – 30 June 2031

**Attachment 7 – Service target performance incentive
scheme**

September 2025

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

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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 United Energy 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 STPIS² 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 United Energy 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 United Energy 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 and short rural supply reliability categories
- set revenue at risk at $\pm 5\%$ 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 MAIFI⁴
- set performance targets based on United Energy'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 2.5 standard deviations from the mean
- not apply the GSL component of the STPIS to United Energy as it remains subject to a jurisdictional GSL scheme.⁵

United Energy 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 United Energy's revenue proposal, submissions raised by stakeholders and the F&A in reaching our draft decision. Our response to the matters raised by United Energy 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 United Energy for the 2026–31 period.

Table 7.1 Draft decision – United Energy's STPIS performance targets for 2026–31 period⁶

	Urban	Short rural	Telephone answering
SAIDI (minutes) ⁷	26.7270	83.0678	N/A
SAIFI (interruptions) ⁸	0.3684	1.2369	N/A
MAIFI (interruptions) ⁹	0.8548	2.3537	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 United Energy'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.

⁷ System Average Interruption Duration Index (SAIDI).

⁸ System Average Interruption Frequency Index (SAIFI).

⁹ Momentary Average Interruption Frequency Index (MAIFI).

	Urban	Short rural	Telephone answering
Customer service - telephone answering (%) ¹⁰	N/A	N/A	81.16 ¹¹

Source: AER analysis.

Table 7.2 Draft decision – United Energy’s STPIS incentive rates for 2026–31 period

	Urban	Short rural	Telephone answering
ir – SAIDI	0.0628	0.0063	N/A
ir – SAIFI	3.0396	0.2814	N/A
ir – MAIFI	0.2432	0.0225	N/A
Customer service - telephone answering (%)	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

United Energy’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:

- *Customer service component (telephone answering parameter)*: United Energy 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 $\pm 5\%$. We discuss our draft decision in relation to revenue at risk in 7.4.1.

7.3 Assessment approach

We are required to decide how the STPIS is to apply to United Energy.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

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 United Energy.

¹² NER, clause 6.12.1(9).

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

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.

7.3.2 Submissions

Stakeholder submissions reflected that service reliability is an area of importance to Victorian customers. However, we did not receive any submissions specifically concerning United Energy's proposed STPIS.

7.4 Reasons for draft decision

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

7.4.1 Revenue at risk

Revenue at risk caps the potential reward and penalty for United Energy under the STPIS. As discussed in Attachment 9 and in 7.4.3 below, our draft decision is to not accept United Energy'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

¹⁴ NER, clause 6.6.2(b)(3)(iv).

¹⁵ NER, clause 6.6.2(b)(3)(v).

components in aggregate of $\pm 5\%$. We consider that a $\pm 5\%$ 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 $\pm 1\%$ 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 United Energy 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 United Energy'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 United Energy's underlying STPIS performance.

We accept United Energy's proposal to calculate the MED threshold using the 2.5 beta method in accordance with our F&A and scheme.

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 scheme¹⁷

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

¹⁷ AER, STPIS Version 2.0 clause 3.2.1(a)(1).

- any reliability improvements completed or planned where the planned reliability improvements are¹⁸:
 - 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 risk¹⁹
- any other factors that are expected to materially affect network reliability performance.²⁰

Reliability improvement projects

Clause 3.2.1(a)(1A) of the STPIS 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.

United Energy's economic analysis for its overhead conductor program indicates that this proposed project is expected to result in a material improvement in supply reliability. Our draft decision (set out in Attachment 2 – Capital Expenditure) is to accept the forecast expenditure for the overhead conductor program.

United Energy has not proposed STPIS targets adjustments for reliability improvements projects.

In accordance with clause 3.2.1(a)(1A) of the STPIS, we expect United Energy's revised proposal to include adjustments to its performance targets to account for expected reliability improvements associated with the overhead conductor program.

Please refer to Attachment 2 – Capital Expenditure for further details.

Our calculated performance targets for United Energy for the 2026–31 period are presented in Table 7.1.

¹⁸ AER, STPIS Version 2.0 clause 3.2.1(a)(1A).

¹⁹ AER, STPIS Version 2.0 clause 3.2.1(a)(1B).

²⁰ AER, STPIS Version 2.0 clause 3.2.1(a)(2).

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 United Energy’s proposed CSIS includes a similar performance measure.²¹

United Energy has proposed to apply the CSIS for the 2026–31 regulatory period. One of the proposed parameters is Grade of service, 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 United Energy’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

Our draft decision is to not accept United Energy’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.

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.²²

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 $\pm 1\%$, and for individual parameters is $\pm 0.5\%$.²³

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

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

²¹ AER, [AER - Final Framework and Approach - Victorian electricity distribution determinations 2026-31 - July 2024](#), July 2024, pp. 18.

²² AER, STPIS Version 2.0 Appendix A, p.29

²³ AER, STPIS Version 2.0 clause 5.2(a) and (b).

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 United Energy regarding the availability of historical data to determine United Energy’s service performance for new connections.

7.4.4 Incentive rates

The incentive rates applicable to United Energy 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. 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.²⁴

Please see Table 7.2 for our draft decision incentive rates for United Energy 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 United Energy’s incentive rates.

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

Table 7.3 Value of customer reliability (\$/MWh)

	Urban	Short Rural
VCR	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.

²⁴ 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