

AER Decision

Essential Energy Customer Service Incentive Scheme transitional arrangement for the 2025-29 regulatory years, and parameter suspension for the 2024-25 regulatory year

November 2025

© Commonwealth of Australia 2025

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

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

AER reference: 18042953

Amendment record

Version	Date	Pages
1.0	24 November 2025	5

Contents

1	Purpose	1
1.1	Background	1
2	The AER's Decision	3
2.1	Legal framework	3
2.2	AER assessment	3

1 Purpose

On 8 April 2025, Essential Energy (Essential) submitted a proposal to apply transitional arrangements to its 2024-29 Customer Service Incentive Scheme (CSIS) for the 2025-29 regulatory years.

This decision document sets out Essential's proposal, as well as our decision to approve Essential Energy's proposed transitional arrangement as appropriate under clause 4.2 of the CSIS. The transitional arrangement will take effect from the start of the 2025-26 performance year, with the impacted parameter to be suspended for the 2024-25 year, as per clause 4.3 of the CSIS.

1.1 Background

CSIS

The CSIS is a flexible, 'principles-based' incentive scheme developed and published in July 2020.¹ It is designed to encourage distribution network service providers (DNSPs) to engage with their customers, identify (via consultation) the services customers want improved and then set targets and incentives to improve them.

The CSIS allows us to set targets for DNSPs' customer service performance and requires them to report on performance against those targets. Under the CSIS, DNSPs may be financially rewarded or penalised depending on how they perform against their customer service targets.²

DNSPs design their CSIS to reflect the required components which include:

- (a) Performance parameters – what customers want to be incentivised
- (b) Measurement methodology – how performance is measured
- (c) Assessment approach – how performance is rated; and
- (d) Financial component – how penalties and rewards are calculated and applied.

Essential Energy's CSIS

On 30 April 2024, the AER's distribution determination for Essential applied the CSIS and approved its proposed incentive design for the 2024-29 period. The CSIS incentive design included 3 'performance parameters.' These are:

1. Percentage of unplanned outages that have an estimated time for restoration communicated to customers
2. Customer ease (satisfaction with customer experience, measured by a post-call survey score out of five)
3. Time to resolve customer complaints

¹ AER, FINAL Customer Service Incentive Scheme, July 2020.

² AER, Explanatory Statement: Customer Service Incentive Scheme, July 2020, p.4.

To develop each parameter and its associated performance target, Essential consulted with customers via engagement forums and a survey of customer interactions which took place over 15 months.

This data was used to develop CSIS metrics, which were presented for ranking and feedback to customers. Customers were also invited to suggest other measures. Essential then sought input from their expert panel, the Stakeholder Collaboration Collective (SCC) who selected parameters for the CSIS, provided feedback on parameter scope and weighting, and suggested the customer complaints resolution parameter. The incentive design was then tested with customers and was amended based on customer and SCC feedback at both the draft proposal and revised proposal stage.³

We approved these parameters as part of the 2024-29 determination as they were quantified, external audits could be implemented to verify outcomes, and the principles for approval (outlined in the scheme) were met.⁴

³ AER, Final Decision Essential Energy Distribution Determination 2024 to 2029, Attachment 6.02 Customer service incentive scheme, November 2023, p.5-9.

⁴ AER, Final Decision Essential Energy Distribution Determination 2024 to 2029, Overview, April 2024, p.27-28.

2 The AER's Decision

2.1 Legal framework

Rule 6.6.4 of the National Electricity Rules (NER) permits us to develop and publish a 'small scale incentive scheme' to provide DNSPs with incentives to provide services in a manner that contributes to the achievement of the National Energy Objectives (NEO).

The CSIS has been applied to Essential for the 2024-29 regulatory control period under Essential's current (2024-29) distribution determination.⁵

Clause 4.3(1) of the CSIS provides that:

At any time during a regulatory control period in which an incentive design applies to a DNSP, the AER may suspend an incentive design or a given performance parameter for either the remainder of the regulatory control period or a portion of the regulatory control period.

Per clause 4.3(3) of the CSIS, a DNSP proposing that the incentive design or given performance parameter be suspended must provide in writing its reasons for proposing the suspension.

Clause 4.3(2) of the CSIS stipulates that in making a suspension decision under subclause 4.3(1), the AER must be satisfied that:

The AER will make a decision under 4.3(1) if it is satisfied that the incentive design, relevant performance parameter (or the measurement methodology, assessment approach or financial component applicable to the relevant performance parameter) are no longer compliant with the incentive design criteria.

Pursuant to clause 4.3(5), before making a decision to suspend a scheme, the AER must consult with the DNSP in question and any other such persons it considers may be affected by and/or have an interest in such a decision.

2.2 AER assessment

Essential's proposal to suspend its CSIS

Essential has sought an amendment to its 2024-29 CSIS. The amendment is designed to correct an inaccurate performance target developed to measure the complaints resolution timeframes parameter.

Performance targets for this parameter were based on an average of monthly complaint resolution times spanning from June 2020 to September 2023 and were developed using data drawn from Essential Energy's customer interaction system.

⁵ AER, Final Decision Essential Energy Distribution Determination 2024 to 2029, Overview, April 2024, p.27-28.

The original approved CSIS targets comprised a baseline target of 14.4 days, a maximum incentive target of 13.4 days, and a maximum penalty target of 15.4 days.

Crucially, AER and consulted customers approved these targets on the basis that these figures were developed using a dataset that excluded Energy and Water Ombudsman NSW (EWON) complaints.

EWON complaints can be complex and are subject to delays outside of Essential's control. Essential's customers chose to exclude EWON complaints from this parameter in alignment with the CSIS scheme element principle 3.2.3(2)(a). This principle specifies that each performance parameter must be an aspect of customer experience that is substantially within the DNSP's control. The resolution of EWON complaints is not within Essential's control.

On 17 February 2025 Essential Energy contacted AER to report the discovery that the dataset used to develop the 14.4-day complaints resolution performance target had in fact included EWON complaints. This error was discovered on 3 February, was assessed internally and was reported to the AER within seven business days, on 13 February.

Following discussions with the AER, as well as engagement with Essential's Customer Advocacy Group (CAG) and Essential's customer forum, the Essential People's Panel (EPP), Essential proposed a transitional arrangement to correct the parameter's performance target to exclusively address general enquires and exclude EWON complaints for the remainder of the 24-29 regulatory period, and to retroactively apply this target to performance within the period prior to the date the transitional arrangement takes effect.

Essential used historical data on monthly average resolution times for general complaints from June 2020–September 2023 to develop an accurate baseline target of 12.9 days, a maximum incentive target of 11.9 days, and a maximum penalty target of 13.9 days. These calculations were verified through quality assurance by Essential's data science team.

AER decision

The AER has considered this matter and has decided to approve Essential Energy's proposed transitional arrangement as appropriate under clause 4.2 of the CSIS.

We consider that Essential's proposed transitional arrangement is compliant with clause 4.2 of the CSIS, as it corrects an issue that will inform subsequent iterations of Essential's CSIS (a transitional issue) by amending an error which materially impacts substantial components of the scheme (specifically, 3.1(c), which requires that incentive designs satisfy scheme element principles). In addition, we consider that the proposal to correct the inaccurate performance target so that it complies with CSIS provisions aligns with scheme objectives and is fair, reasonable, and in the best long-term interests of both Essential and its customers.

The transitional arrangement will apply to the 'time to resolve customer complaints' parameter and will restore this parameter's original scope, excluding matters referred to the Energy and Water Ombudsman NSW and amending the performance target to 12.9 days. The transitional arrangement will take effect from the start of the 2025-26 performance year.

We note that Essential was on track to receive a reward for its performance against the erroneous parameter for the 2024-25 performance year. As the transitional arrangement

amends a data scope error which rendered the impacted parameter non-compliant with the scheme, we also consider that a suspension of the parameter for the 2024-25 performance year is appropriate under clause 4.3 of the CSIS. Suspending the CSIS promotes the transparency, reliability and accuracy required by the scheme and highlights that robust assurance is a vital component of the CSIS.

In addition, we have requested that Essential Energy provide an assurance letter from its Board Regulatory Committee detailing quality assurance process, data governance procedures and risk management controls associated with the compilation of CSIS data, as well as steps taken to improve these controls to ensure similar errors do not occur again.

This assurance letter is to be provided to the AER either with or shortly after the CSIS annual compliance submission, and by 30 November.

Conclusion

In accordance with clauses 4.2 and 4.3 of the CSIS, our decision is to approve Essential's proposed transitional arrangement as taking effect from the start of the 2025-26 performance year, and to suspend the impacted parameter for the 2024-25 performance year.