Draft Decision

Ergon Energy Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 10
Service target performance incentive scheme

September 2024

AUSTRALIAN ENERGY REGULATOR

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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10 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 2025–30 regulatory control period (period).[1]

This attachment sets out our draft decision on how we will apply the STPIS to Ergon Energy for the 2025–30 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 was published in November 2018 and will apply to all revenue determinations from that date.[2]

Framework and approach to the application of STPIS

Our July 2023 Framework and Approach (F&A)[3] stated that we intend to apply version 2.0 of the STPIS to Ergon Energy in the 2025–30 period, noting that:

- the guaranteed service level (GSL) component of the STPIS will not apply if Ergon Energy remains subject to a jurisdictional GSL scheme[4]
- the customer service (telephone answering) component of STPIS will not apply if Ergon Energy proposes, and we accept, a customer service incentive scheme (CSIS) for the 2025–30 period.

We also proposed to continue to apply a revenue at risk of ±2% as Ergon Energy has continued to demonstrate strong reliability performance in the current regulatory period. We considered that the current revenue at risk is still a good balance between incentives to maintain reliability and consumer price impacts.[5]

1 NER, clauses 6.3.2 and 6.12.1(9).

2 AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018 (AER, STPIS Version2.0, November 2018).

3 AER, *Framework and Approach Ergon Energy and Energex, Regulatory control period commencing 1 July 2025*, July 2023, p.16–17.

4 The STPIS GSL scheme does not currently apply in Queensland as a jurisdictional GSL payment scheme is in place. Queensland Competition Authority, Final Decision, Review of Guaranteed Service Levels to apply to Energex and Ergon Energy from July 2020, March 2019.

5 AER, *Framework and Approach Ergon Energy and Energex, Regulatory control period commencing 1 July 2025*, July 2023, p.16–17.

10.1 Draft decision

Our draft decision is to apply STPIS 2.0 to Ergon Energy in the 2025–30 period. Specifically, we will continue with the following current arrangements:

- set revenue at risk at ±2% of the annual forecast revenue
- segment the network according to the urban, short rural and long rural supply reliability categories
- apply the system average interruption duration index or SAIDI, system average interruption frequency index or SAIFI and customer service (telephone answering) parameters
- set performance targets based on Ergon Energy's average performance
- apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets
- apply the 2019 values of customer reliability (VCR) adjusted to June 2024 CPI to set the incentive rates for SAIDI and SAIFI[6]
- the GSL component of the STPIS will not apply to Ergon Energy as it remains subject to a jurisdictional GSL scheme.[7]

Ergon Energy is required to submit the 2023–24 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 Ergon Energy's revenue proposal, submissions raised by stakeholders and the F&A in reaching our draft decision. Our response to the matters raised by Ergon Energy and stakeholders about the application of the STPIS are discussed below.

Table 10-1 and Table 10-2 present our draft decision on the applicable performance targets and incentive rates that will apply to Ergon Energy for the 2025–30 period.

Table 10-1 – Draft decision – Ergon Energy's STPIS reliability targets for 2025–30 period[8]

	Urban	Short rural	Long rural	Telephone answering
SAIDI (minutes)[9]	119.9629	280.4708	783.2801	N/A

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6 For the final decision, we will apply the December 2024 values of customer reliability calculated in accordance with the 2024 VCR methodology (AER, Values of customer reliability, Statement of methodology, August 2024).

7 The STPIS GSL scheme does not currently apply in Queensland as a jurisdictional GSL payment scheme is in place. Queensland Competition Authority, Final Decision, Review of Guaranteed Service Levels to apply to Energex and Ergon Energy from July 2020, March 2019.

8 As Ergon Energy's 2023/24 performance data is not yet available, we have calculated targets for this draft decision using historical data for 4 years (2019/20 to 2022/23). For the final decision we will calculate targets using 5 years of data, including 2023/24 performance data.

9 System Average Interruption Duration Index (SAIDI).

SAIFI (interruptions)[10]	1.2097	2.3837	4.6148	N/A
Customer service (%)	N/A	N/A	N/A	86.48

Source: AER analysis

Table 10-2 – Draft decision – Ergon Energy's STPIS incentive rates for 2025–30 period

	Urban	Short rural	Long rural	Telephone answering
ir - SAIDI	0.0188	0.0243	0.0049	N/A
ir - SAIFI	1.2419	1.9080	0.5573	N/A
ir – Customer service	N/A	N/A	N/A	-0.0400

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

10.2 Ergon Energy's revenue proposal

Ergon Energy's revenue proposal accepted our F&A position to apply version 2.0 of the STPIS in the 2025-30 period.

Specifically, Ergon Energy proposed to continue with the current arrangements for the STPIS in relation to: market segmentation; reliability of supply parameters; calculation of performance targets; incentive rates; the methodology for calculating major event days (MED) and the decision to not apply the GSL component.[11]

However, Ergon Energy proposed to depart from current arrangements and not apply the customer service component of the STPIS (telephone answering) for the 2025–30 period. Without the customer service component, Ergon Energy also proposed that the overall revenue at risk cap be reduced to from 2% to 1.8%.[12] This is because a 0.2% revenue at risk cap currently applies to the customer service component.[13]

Ergon Energy explained that the proposed removal of the customer service component is an outcome of customer engagement in developing its regulatory proposal. Further, because of the same customer engagement process, Ergon Energy proposed to not apply the CSIS.[14] This is explained in more detail in section 10.4.3 of this attachment.

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10 System Average Interruption Frequency Index (SAIFI).

11 Ergon Energy, *Ergon Energy Network Regulatory Proposal 2025-30*, January 2024, p 150.

12 Ergon Energy, *Ergon Energy Network Regulatory Proposal 2025-30*, January 2024, p.145.

13 AER, *Issues Paper Ergon Energy and Energex electricity distribution determinations 2025-30*, March 2024, p.44.

14 Ergon Energy, *Ergon Energy Network Regulatory Proposal 2025-30*, January 2024, p 150.

10.3 Assessment approach

We are required to decide how the STPIS is to apply to Ergon Energy.[15] 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.[16]

10.3.1 Interrelationships

We must consider any other incentives available to the DNSP under the NER or relevant distribution determination in implementing the STPIS.[17] 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.[18] For the 2025–30 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.

10.4 Reasons for draft decision

The following section sets out our detailed consideration on applying the STPIS to Ergon Energy for the 2025–30 period.

10.4.1 Revenue at risk

Revenue at risk caps the potential reward and penalty for Ergon Energy under the STPIS. We consider that an incentive of ± 2.0% of the annual forecast revenue is appropriate for

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15 NER, clause 6.12.1(9).

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

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

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

Ergon Energy because it has demonstrated strong reliability performance; hence a ± 2.0% limit is the appropriate balance between the incentives to maintain reliability versus the price impact to customers funding the reliability outcomes.

10.4.2 Reliability of supply component

Applicable components and parameters

We will apply the unplanned SAIDI and unplanned SAIFI parameters under the reliability of supply component to Ergon Energy's feeder segments for the 2025–30 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.[19]

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 Ergon Energy's underlying STPIS performance.

We accept Ergon Energy's proposal to calculate the major event day 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 scheme[20]
- any reliability improvements completed or planned where the planned reliability improvements are[21]:
  - 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[22]
- any other factors that are expected to materially affect network reliability performance.[23]

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

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

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

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

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

Our draft decision is to set Ergon Energy's performance targets based on average performance over the past four regulatory years without modification. As Ergon Energy's 2023/24 performance data is not yet available, we have calculated targets for this draft decision using historical data for 4 years (2019/20 to 2022/23). For the final decision we will calculate targets using 5 years of data, including 2023/24 performance data.

No adjustments are required to be made to Ergon Energy's reliability target. This is because there has been no additional capex allowance approved for Ergon Energy to improve its reliability; rather, the capex discussed in Attachment 5 concerns expenditure required for Ergon Energy to maintain its current level of reliability. Please refer to Attachment 5 – Capital Expenditure for further details.

Our calculated performance targets for Ergon Energy for the 2025–30 period are presented in Table 10-1.

10.4.3 Customer service component

Our draft decision is to apply the customer service (telephone answering) parameter of version 2.0 of the STPIS.

Our position in our July 2023 F&A was to not apply the customer service (telephone answering) component of STPIS if Ergon Energy proposes, and we accept, a CSIS for the 2025–30 period.[24]

However, Ergon Energy has proposed to not apply a CSIS for the 2025–30 period.

In developing its proposal, Ergon Energy consulted with its customers on the application of a new CSIS to replace the STPIS customer service component. In its proposal, Ergon Energy stated that there was overwhelming feedback from customers that although good customer service is highly valued, Ergon Energy should not be incentivised for this and therefore a CSIS should not apply. Relatedly, Ergon Energy's proposal also stated that customers considered that it should not retain the STPIS customer service component (telephone answering) in the upcoming regulatory period.

The AER's Consumer Challenge Panel (CCP30)[25] and Energy Queensland's Reset Reference Group (RRG) noted in their submissions that Ergon Energy's position not to apply a CSIS or the telephone answering parameter of the STPIS was in accordance with customer preferences.[26] However, CCP30 expressed concern that Ergon Energy's framing of the CSIS as a "reward for good service" set a tone that led to its inevitable rejection and is

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24 AER, *Framework and Approach Ergon Energy and Energex, Regulatory control period commencing 1 July 2025*, July 2023, p.16.

25 The AER established the inaugural Consumer Challenge Panel (CCP) in July 2013. The CCP's objective is to advise the AER on whether long-term consumer interests are being appropriately considered in regulatory proposals and the AER's decision making, and to assess networks' consumer engagement, including the extent to which proposals reflect consumer preferences. Further information can be found on *this webpage* and *this factsheet*.

26 AER Consumer Challenge Panel (CCP) Sub-Panel CCP30 (CCP30), *Advice to the AER regarding the Energex and Ergon Energy (Energy Queensland) regulatory proposals 2025-30 Response to the Proposals and Issues Paper*, May 2024, p.29-30; Energy Queensland Reset Reference Group, *Submission on Ergon Energy and Energex electricity distribution regulatory proposals 2025-30 and the Australian Energy Regulator's Issues Paper*, May 2024, p.64.

out of line with other network businesses that support a CSIS and STPIS as an effective way to incentivise improved customer service and spent considerable time considering metrics. CCP30 considered that consumers did not have a reasonable opportunity to absorb, understand and respond to the impact of penalties in incentive schemes.[27]

CCP30 and the RRG emphasised that in the absence of a CSIS or customer service component of the STPIS, a robust, transparent and accessible customer service reporting scheme should be developed and implemented.[28] RRG considered that this framework should be included in the revised proposal to give the AER confidence that Energy Queensland will maintain a strong focus on good customer service.[29]

An independent consumer submission from Ms Amanda Pummer expressed support for the telephone answering parameter of the STPIS to apply if a CSIS is not applied.[30]

Clause 5.1(b) of the STPIS states that the telephone answering parameter of the STPIS will apply during a regulatory control period except where the AER determines otherwise in its distribution determination.[31]

Customer feedback is critical to the AER's decision making process. In reaching our draft decision we have carefully considered Ergon Energy's consultation process regarding financial incentives for customer service. Indeed, under clause 1.5(b)(6) of the STPIS, in considering the objectives for STPIS development and implementation, the AER must take into account the willingness of the customer or end user to pay for improved performance in the delivery of services.

For these reasons the AER sees merit in the approach proposed by Ergon Energy (and supported by customers), and therefore our draft decision to continue to apply the telephone answering component of the STPIS in the absence of a CSIS is finely balanced.

Customer communications channels, for example text and online, have become more prevalent since the STPIS telephone answering component was first introduced. However, while there has been a reduction, the volume of fault calls remains significant. Also, in the event that other communications channels fail, the ability for customers to reach their DNSP by telephone if there is a major event such as a storm or IT outage is still important.

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27 AER Consumer Challenge Panel (CCP) Sub-Panel CCP30 (CCP30), *Advice to the AER regarding the Energex and Ergon Energy (Energy Queensland) regulatory proposals 2025-30 Response to the Proposals and Issues Paper*, May 2024, p.29.

28 AER Consumer Challenge Panel (CCP) Sub-Panel CCP30 (CCP30), *Advice to the AER regarding the Energex and Ergon Energy (Energy Queensland) regulatory proposals 2025-30 Response to the Proposals and Issues Paper*, May 2024, p.29-30; Energy Queensland Reset Reference Group, *Submission on Ergon Energy and Energex electricity distribution regulatory proposals 2025-30 and the Australian Energy Regulator's Issues Paper*, May 2024, p.64.

29 Energy Queensland Reset Reference Group, *Submission on Ergon Energy and Energex electricity distribution regulatory proposals 2025-30 and the Australian Energy Regulator's Issues Paper*, May 2024, p.64.

30 Amanda Pummer, *Submission to Issues Paper – AER – Ergon Energy and Energex electricity distribution determinations 25-30*, p.3.

31 AER, STPIS version 2.0, clause 5.1(b).

The importance of customer communications was evident following the February 2024 outage in Victoria caused by damaging winds in the AusNet Services (AusNet) distribution zone. In that instance, the efficiency of the telephone answering of fault calls was critical for customers to gain information about their outage, as other communications channels failed.

Alternatives to communicating by telephone can at times be less reliable in remote parts of the country, such as parts of regional Queensland. Given that large parts of Ergon Energy's distribution network are regional or remote[32], the AER considers that the ability for customers to be confident in Ergon Energy quickly responding to incoming calls is even more important.

Another consideration in reaching our draft decision is that although the STPIS rewards DNSPs for improvements in customer service, it also penalises DNSPs who do not meet their performance targets. A 0.2% revenue at risk cap currently applies to the customer service component for Ergon Energy. This creates a discipline on Ergon Energy to maintain a level of telephone responsiveness to avoid incurring a financial penalty.

Further in support of our draft decision, it also important to note that it is open to Ergon Energy to refuse to accept financial rewards accrued in association with outperforming its telephone answering performance targets.

As an electricity distribution network service provider, Ergon Energy is a natural monopoly. In the absence of economic regulation, it will not face the same incentives as a competitive business to deliver quality of service outcomes.

Having at least one customer service performance measure subject to the regulatory framework would provide customers with confidence that their needs are being addressed efficiently. In light of this, not applying the customer service (telephone answering) parameter of the STPIS (where Ergon Energy has proposed to not apply a CSIS) and the associated controls would seem to be misaligned with the long term interests of consumers under the National Electricity Objective.[33]

As an alternative to adopting the formal CSIS, Ergon Energy has indicated that it will propose an alternative customer service performance reporting framework for which they will not receive any reward payments. Ergon Energy has committed to provide more information on the proposed framework in its Revised Regulatory proposal after further customer consultation.

While we support flexibility in light of potential changes in consumer sentiment, Ergon Energy's alternative approach would not be subject to the appropriate incentives or penalties to maintain its current levels of customer service. While diminishing, the still relatively high number of telephone calls to Ergon Energy's fault lines combined with the importance of inbound telephone calls during emergencies means that the STPIS telephone answering parameter is still relevant, important and needed.

The AER welcomes feedback on its draft decision to continue to apply the customer service (telephone answering) parameter of version 2.0 of the STPIS.

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32 Ergon Energy, *Our service map*, accessed 30 August 2024.

33 National Electricity Law, section 7.

The STPIS telephone answering target and incentive rate to apply to Ergon Energy in the 2025–30 period is at Table 10-1.

10.4.4 Incentive rates

The incentive rates applicable to Ergon 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 June 2024 CPI value.[34]

Our draft decision incentive rates for Ergon Energy for the 2025–30 period are presented in Table 10-2.

10.4.5 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 2025–30 period. Consistent with this our draft decision is to apply the 2019 VCR (escalated to the June 2024 CPI value) (as) to the distribution determination in calculating Ergon Energy's incentive rates.

The VCR for network segments outlined in Table 10-3 were applied to calculate Ergon Energy's incentives rates for the 2025–30 period.

Table 10-3 Value of customer reliability ($/MWh)

	Urban	Short rural	Long rural
VCR	48,399	48,399	48,399

Source: AER, Values of Customer Reliability, Final report on VCR values, December 2019, p.17 and 71.[35] For the final decision, we will apply the December 2024 values of customer reliability calculated in accordance with the 2024 VCR methodology (AER, Values of customer reliability, Statement of methodology, August 2024).

34 AER, STPIS Version 2.0, November 2018; AER, *Values of customer reliability, Final report on VCR values*, December 2019, p.17 and 71.

35 AER, *Values of Customer Reliability, Final report on VCR values*, December 2019, p.17 and 71.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
DNSP	distribution network service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
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
MED	major event day
VCR	values of customer reliability
GSL	guaranteed service level
ir	incentive rate
CPI	consumer price index