

Appendix D

Multi-function Asset Policy

Proposed revisions to the access arrangement

1 February 2022



Access Arrangement (AA) for the period
1 July 2023 to 30 June 2027

EDM 58435836

Multi-function Asset Policy

1 July 2023

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1. Defined Terms and Interpretation

1.1 Defined Terms

In this *multi-function asset policy*, unless the contrary intention is apparent:

“access arrangement” means the current *access arrangement* approved in respect of the *network* under the *Code*.

“access contract” has the same meaning given to it in the *Code*.

{Note: Under the *Code* “access contract” has the same meaning as ‘access agreement’ does in Part 8 of the Act, and under section 13.4(d) includes a *deemed access contract*. The definition of “access agreement” under the *Act* is "an agreement under the *Code* between a network service provider and another person (a “network user”) for that person to have access to services".}

“Act” means the *Electricity Industry Act 2004*.

“additional revenue” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* "additional revenue" has the meaning given to it in section 6.42 of the *Code* when used in section 6.41 of the *Code*.}

“alternative options” means alternatives to part or all of a *network* enhancement, including demand-side management and *generation* solutions (such as distributed *generation*) either instead of or in combination with a *network* enhancement.

“alternative option contribution” means a *contribution* made, or to be made, by an *applicant* in respect of an *alternative option*.

“alternative option test”, in respect of the *network*, means the test set out in section 6.41 of the *Code*.

“anticipated incremental revenue” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "anticipated incremental revenue" for a new facility means “the present value (calculated at the *rate of return* over a reasonable period) of the increased income from *charges* (excluding any *contributions*) reasonably anticipated to arise from the increased sale of *covered services* on the *network* to one or more *users* (where “increased sale of *covered services*” means sale of *covered services* which would not have occurred had the *new facility* not been commissioned),

minus

the present value (calculated at the *rate of return* over the same period) of the best reasonable forecast of the increase in *non-capital costs* directly attributable to the increased sale of the *covered services* (being the *covered services* referred to in the expression “increased sale of *covered services*” in paragraph (a) of this definition).}

“Appendix 8 work” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "Appendix 8 work" means "work in connection with the *Western Power Network* of a type specified in clause A8.2 of Appendix 8".}

“applicant” means a person (who may be a *user*, a *customer* or a *developer*) who has lodged, or intends to lodge, a *connection application*, and includes a person who does so on behalf of another person.

“augmentation” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* "augmentation" in relation to a *covered network*, means "an increase in the capability of the *covered network* to provide *covered services*".}

“Authority” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* "Authority" means "the Economic Regulation Authority established by the *Economic Regulation Authority Act 2003*".}

"capital contribution" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "capital contribution" means "a payment or provision in kind made, or to be made, by a *user* in respect of any *new facilities investment in required work*".}

"Code" means the *Electricity Networks Access Code 2004* (as amended).

"connect" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "connect" means "to form a physical link to or through a *network*".}

"connection assets" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "connection assets" for a *connection point*, means "all of the *network assets* that are used only in order to provide *covered services* at the *connection point*".}

"connection point" means an *exit point* or an *entry point* or a *bidirectional point* identified or to be identified as such in an *access contract*.

"consume" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "consume" means "to *consume* electricity".}

"consumption", for a *connection point*, means the amount of electricity *consumed* at the *connection point*, and is measured in Watt-hours.

"contracted capacity" means the maximum rate at which a *user* is permitted to transfer electricity at a *connection point* under the *user's access contract*.

"covered service" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "covered service" means "a service provided by means of a *covered network*, including:

- (a) a *connection service*; or
- (b) an *entry service*, *exit service* or *bidirectional service*; or
- (c) a network use of system service; or
- (d) a *common service*; or
- (e) a *service* ancillary to a service listed in paragraph (a) to (d) above, but does not include an *excluded service*".}

"cpi" means the "all capitals consumer price index" as defined by the Australian Bureau of Statistics.

"customer" has the meaning given to it in the *Act*.

"distribution system" has the same meaning given to it in the *Code*, but excludes equipment within zone substations used for the transportation of electricity at nominal voltage of less than 66 kV.

{Note: Under the *Code* "distribution system" means "any apparatus, equipment, plant or buildings used, or to be used, for, or in connection with, the transportation of electricity at nominal voltages of less than 66 kV".}

"entry point" has the same meaning given to it in the *applications and queuing policy*.

{Note: Under the *applications and queuing policy* "entry point" means "a single, indivisible (except as allowed under this *applications and queuing policy*) point, that for purposes under the *access arrangement* involving the transfer of electricity, is deemed to consist of a single *attachment point*, *connected* or to be *connected* to a *user's connection point*, with a single *meter*

(regardless of the actual configuration of *network assets* making up the *entry point*), at which electricity is more likely to be transferred into the *network* than out of the *network*".}

"entry service" has the same meaning given to it in the *applications and queuing policy*.

{Note: Under the *applications and queuing policy* "entry service" means "a covered service provided by Western Power at a *connection point* under which the user may transfer electricity into the *network* at the *connection point*".}

"exit point" has the same meaning given to it in the *applications and queuing policy*.

{Note: Under the *applications and queuing policy* "exit point" means "a single, indivisible (except as allowed under this applications and queuing policy) point, that for purposes under the *access arrangement* involving the transfer of electricity, is deemed to consist of a single *attachment point*, *connected* or to be *connected* to a user's *connection point*, with a single *meter* (regardless of the actual configuration of *network assets* making up the *exit point*), at which electricity is more likely to be transferred out of the *network* than into the *network*".}

"exit service" has the same meaning given to it in the *applications and queuing policy*.

{Note: Under the *applications and queuing policy* "exit service" means "a covered service provided by Western Power at a *connection point* under which the user may transfer electricity out of the *network* at the *connection point*".}

"facilities and equipment" has the same meaning given to it in the *Code*.

{Note: Under the *Code*, "facilities and equipment" in relation to a *connection point*, means "the apparatus, equipment, plant and buildings used for or in connection with *generating*, *consuming* and *transporting* electricity at the *connection point*".}

"forecast costs" means any or all of the *forecast new facilities investment* or the forecast *alternative option costs*, as applicable, to be incurred by Western Power with regards to *works*.

"forecast new facilities investment" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "forecast new facilities investment" for a *covered network* means "the capital costs forecast to be incurred in developing, constructing and acquiring new *network assets* for the *covered network*".}

"generation", for a *connection point*, means the amount of electricity *generated* at the *connection point*, and is measured in kilowatts.

"good electricity industry practice" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "good electricity industry practice" means "the exercise of that degree of skill, diligence, prudence and foresight that a skilled and experienced person would reasonably and ordinarily exercise under comparable conditions and circumstances consistent with applicable *written laws* and *statutory instruments* and applicable recognised codes, standards and guidelines".}

"GST" means Goods and Services Tax.

"HV" means the high voltage level of the distribution *network* where the voltage is greater than 6 kV and less than 66 kV.

"low voltage" means the low voltage level of the *distribution system network* where the voltage is less than 1 kV.

"minimum practical works" with regard to *covered services* sought by an *applicant*, means the minimum *works* Western Power must undertake, acting efficiently in accordance with *good electricity industry practice*, to provide only those *covered services* required by that *applicant*.

"multi-function asset" has the meaning given in the *Code*.

"multi-function asset guidelines" means the guidelines published by the Authority under the *Code*.

"multi-function asset policy" means a policy in an access arrangement under the *Code*.

“multi-function asset principles” means the principles under the *Code*.

“net benefit” means a net benefit (measured in present value terms to the extent that it is possible to do so) to those who generate, transport and consume electricity in (as the case may be):

- (a) the covered network; or
- (b) the covered network and any interconnected system.

“net benefit after considering alternative options” is defined in the *Code*.

“net incremental revenue” means, in relation to a multi-function asset, the revenue from all payments received by a service provider in excess of the revenue it would receive if the asset only provided covered services, for a pricing year.

“network” has the meaning given to “Western Power Network” in the *Code*.

{Note: Under the *Code* “Western Power Network” means “the *covered network* that is *covered* under section 3.1”. The “Western Power Network” is the portion of the SWIN that is owned by the Electricity Networks Corporation.}

“network assets” has the same meaning given to it in the *Code*.

{Note: Under the *Code* “network assets”, in relation to a *network* means “the apparatus, equipment, plant and buildings used to provide or in connection with providing *covered services* on the *network*, which assets are either *connection assets* or *shared assets*”.

“new facilities investment” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* “new facilities investment” means, for a new facility, “the capital costs incurred in developing, constructing and acquiring the new facility”.

“new facilities investment test” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* “new facilities investment test” means, in respect of a covered *network*, “the test set out in section 6.52”.

“new revenue” means the *anticipated incremental revenue* or *additional revenue* or both, as applicable, with respect to *works*.

“non-capital contribution” means a payment or provision in kind made, or to be made, by a *user* in respect of any *non-capital costs* (or forecast *non-capital costs*) of *required work*.

“non-capital costs” means the *non-capital costs* (as defined in the *Code*), but excluding *alternative option costs*, to be incurred by Western Power with regards to *works*.

“price control” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* “price control” means “the provisions in an *access arrangement* under section 5.1(d) and Chapter 6 of the *Code* which determine *target revenue*”.

“reasonable and prudent person” means a person acting in good faith and in accordance with *good electricity industry practice*.

“required work” means *work* which is necessary in order to provide a *covered service* sought in a *connection application*.

“retailer” has the meaning given to it in the *Act*.

“scheme” has the same meaning as given to it in Appendix 8 of the *Code*.

“**services**” has the meaning given to that term in Part 8 of the Act, and “**service**” has a corresponding meaning.

{Note: At the time the *Electricity Networks Access Code Amendments (No 2) 2008* were made, the definition in section 103 of the Act was:

“**services**” means –

- (a) the conveyance of electricity and other *services* provided by means of network infrastructure facilities; and
- (b) *services* ancillary to such *services*’.

“**service provider**” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "service provider" in relation to a *network* means "a person who owns or operates the *network*".}

“**shared assets**” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "shared assets" means "those *network assets* which are not *connection assets*".}

“**SWIS**” is the South West Interconnected System and it has the meaning given to it in the *Code*.

{Note: Under the *Code* "SWIS" has the meaning as given to it in the Act, being "the interconnected transmission and distribution systems, generating *works* and associated *works* -

- (a) located in the South West of the State and extending generally between Kalbarri, Albany and Kalgoorlie; and
- (b) into which electricity is supplied by -
 - (i) one or more of the electricity *generation* plants at Kwinana, Muja, Collie and Pinjar; or
 - (ii) any prescribed electricity *generation* plant".}

“**technical rules**” means the *technical rules* (as defined in the *Code*) applying from time to time to the *network* under Chapter 12 of the *Code*, as modified in accordance with the *Code*.

“**transmission system**” has the same meaning given to it in the *Code*, but also includes equipment within zone substations used for the transportation of electricity at nominal voltage of less than 66 kV.

“**user**” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "user" means "a person, including a *generator* or a *consumer*, who is a party to a contract for services with a *service provider*, and under section 13.4(e) includes an *other business* as a party to a *deemed access contract*".}

“**WEM rules**” means the ‘market rules’ referred to in section 123(1) of the *Act*, and includes all rules, policies or other subordinate documents developed under the WEM Rules.

“**works**” includes *distribution low voltage connection headworks scheme works* and all *works* required to be undertaken to provide an *applicant* with the *covered services* sought by the *applicant* in a *connection application*, including *works* associated with:

- (a) *augmentation of connection assets*;
- (b) *augmentation of shared assets*;
- (c) *alternative options*; and
- (d) other *non-capital works*.

1.2 Interpretation

- (a) Unless the contrary intention is apparent:
 - (i) a rule of interpretation in the *Code*; and
 - (ii) the Interpretation Act 1984

apply to the interpretation of this *contributions policy*.

- (b) Unless:
 - (i) the *contrary* intention is apparent; or
 - (ii) the term has been redefined in clause 1.1,

a term with a defined meaning in the *Code* has the same meaning in this *multi-function asset policy*.

2. Application of the Multi-function Asset Policy

Western Power's *Multi-function asset policy* ("MFA Policy") sets out the approach to sharing incremental revenue earned where regulated assets are used for the provision of non-covered services. Non-covered services refer to services that are not covered services.

Covered services relate to the provision of electricity network services that are paid for by the broad customer base, and subject to price regulation by the ERA under the Access Code. Non covered services are also not excluded services. An example of a non-covered service is rental payments for use of Western Power buildings.

Western Power's MFA Policy provides:

- the details for identification of the applicable non-covered services that use multi-function assets;
- the methodology used to calculate net incremental revenue; and
- the methodology for calculating the deduction to target revenue.

This MFA Policy is accompanied by a MFA Policy Explanatory Statement, which sets out the reasons for the methodologies used in this policy.

Under this policy, a proportion of the incremental revenue earned by Western Power in such situations is transferred to regulated customers subject to the conditions set out in the MFA Policy. Customers using Western Power's network will benefit from the MFA Policy by receiving reductions to future network charges.

The multi-function asset framework was added to the Electricity Networks Access Code 2004 ("Access Code") in September 2020 and the Multi-function Asset guideline ("Guideline") was finalised in October 2021.¹ The MFA Policy starts upon commencement of the fifth access arrangement on 1 July 2023.²

The objective of the revenue sharing arrangement between Western Power and the users of covered services is to account for circumstances where Western Power is over-recovering the costs of regulated network assets that supply covered services by supplying non-covered services to third parties. As the regulated assets are being paid for by electricity customers through Western Power tariffs, it is appropriate that there is some sharing of revenue while also maintaining commercial incentives for Western Power to utilise those assets.

The Access Code contains the high-level arrangements for the MFA framework. It contains the following components:

- the multi-function asset principles;
- objectives that the policy should achieve, the level of detail expected, the broad content and a requirement for consistency with the Guideline;
- the operation of the revenue sharing mechanism, as a reduction to target revenue equal to 30 per cent of material net incremental revenue, where the net incremental revenue is material in a pricing year if it is greater than \$1 million (CPI adjusted).

The MFA Policy Explanatory Statement sets out the details about the regulatory arrangements of the MFA framework, which is comprised of the sections in the Access Code and the Economic Regulation Authority's Guideline. The Explanatory Statement also sets out how the MFA Policy meets the regulatory requirements.

¹ ERA (Oct 2021) Multi-function asset guideline- Decision

² Section 5.1 (m) Access Code requires the service provider to include a multi-function asset policy in its access arrangement.

3. Multi-function Asset Policy

This section addresses the Guideline requirement below:

A service provider must include a MFA Policy in its access arrangement. The policy must:

- Set out how the service provider will identify any services that are not covered services that use assets included in the regulated asset base over the access arrangement period.
- Set out how the service provider will identify and report all payments received for services that are not covered services that use assets included in the regulated asset based.
- Set out how the service provider will ensure the use of assets included in the regulated asset base to provide services that are not covered services does not materially prejudice the provision of covered services.

3.1 Overview of the Decision-making Framework for Identifying Non-covered Services

The Guideline explains that there are a wide range of network assets that may be able to provide unregulated services and the Guideline does not specifically identify the types of assets that will be captured by the multi-function asset provisions.³ It is role of this MFA Policy to explain the approach for identifying the types of assets that are within scope of the MFA arrangements.

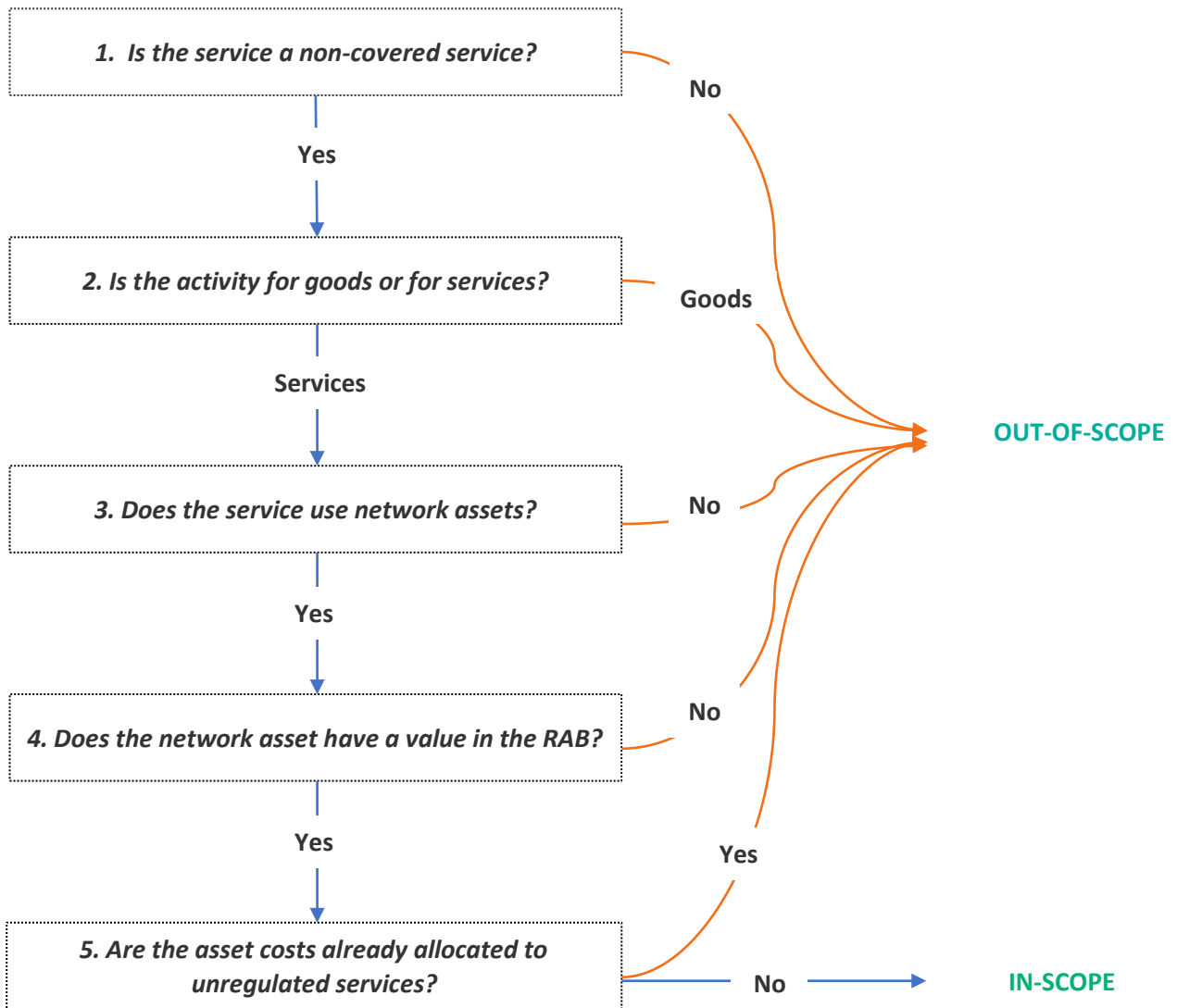
The Guideline states that the regulated asset base includes all assets that provide covered services that have been, or are being, paid for by customers.⁴ However, not all the assets in the regulated asset are relevant for the MFA Policy. This section sets out the decision-making framework that is used to identify the relevant non-covered services.

A decision-making tool comprised of five-steps which accurately identify the applicable services that use MFAs is applied. Figure 1 below illustrates the steps in the process as a decision tree.

³ ERA (October 2021) Multi-function asset guideline p.5

⁴ ERA (October 2021) Multi-function asset guideline p.5

Figure 1 Decision tree for the process of identifying applicable non-covered services



3.2 Explanation of the Decision-making Framework

This section describes each of the steps in the decision-making framework in more detail.

Step 1. Is the service a non-covered service?

This step separates non-covered services from covered services and excluded services. Non-covered services are the services supplied by Western Power that are not covered services. If a service is not a covered service, it is a 'non-covered service'. Non-covered services are within scope of the MFA Policy.

- Covered services are not included in this policy because the policy is for multi-function assets which is defined in the singular as a network asset used to provide services other than covered services.

Covered services are listed in the Access Arrangement and they are regulated through either the price control target revenue, have fixed fees or are priced on application.

- Excluded services are a type of covered service that is supplied in a contestable market. The capital costs are outside the regulated business and are not included in Western Power's regulated asset base.

Excluded services are determined by the ERA and listed on the ERA website as part of the Framework and Approach process. At the time of developing this MFA Policy, there is one excluded service, which is the service provided by batteries owned by Western Power to other parties.⁵

Step 2: Is this activity for goods or for services?

This step distinguishes between goods and services. For an activity to be a service it must meet the definition of "services" in the Electricity Industry Act 2004.⁶ An activity must be used for the conveyance of electricity and other services provided by means of network infrastructure facilities or ancillary to such a service for it to be classified as a service.

Goods are not included in the MFA Policy.

An example of an activity that earns revenue and is not a service, is material sales. These are not part of the MFA policy because a material, on its own, is not part of the network and it cannot convey electricity or provide other services. In addition, material sales are not listed as ancillary services in Western Power's Access Arrangement.⁷ The ERA concluded this during the consultation process on the Guideline.

"Materials are a good rather than a service. The materials sold are not network assets and are not paid for by network users. On that basis, the ERA considers that material sales would not be captured under the multi-function asset provisions."⁸

Step 3: Does the service use network assets?

This step identifies non-covered services that use network assets. The definition in the Access Code for a multi-function asset requires the asset to be a network asset. The MFA Policy does not include any services that do not use network assets.

⁵ ERA (October 2021) Excluded service determination for services provided by batteries owned by Western Power – Determination p.1

⁶ Electricity Industry Act 2004, Western Australia s3 Preliminary p. 5. The definition is cross referenced in the Electricity Networks Access Code 2004

⁷ Western Power (10 May 2019) Amended Proposed Access Arrangement for the Western Power Network February 2019 Table 4 p.9

⁸ ERA (October 2021) Multi-function asset guideline- Decision p.6

Transitory or incidental use of an asset would not be sufficient usage for this policy to apply to the network asset. The assets included in this policy are integral to the delivery of the non-covered service.

There are several non-covered services supplied by Western Power that do not use network assets. The services that do not use network assets generally use operational resources, such as labour. Western Power uses the service description combined with accounting and engineering knowledge to identify the network assets used to supply each non-covered service.

Step 4: Does the network asset have a value in the RAB?

This step identifies network assets that have a zero value in the RAB to remove them from the policy. Assets that are fully depreciated but still in use, remain within the MFA Policy because customers paid for these assets in the past.

Electricity customers are not paying (or have not paid in the past) for these assets through regulated charges. There are no over-recovery of costs for low valued assets to be resolved by the MFA Policy. Assets in the regulated asset base that have no financial value are not included in the MFA Policy as set out in the explanatory document.

Step 5: Are the asset costs already allocated to unregulated services?

This step:

- identifies business activities beyond the regulated electricity transmission and distribution sectors;
- recognises that network costs have already been allocated to another business or other services under Western Power's cost allocation methodology; and
- is conducted by reviewing the application of the Cost and Revenue Allocation Methodology in a pricing year to non-covered services.

If part of the costs is already allocated to the regulated asset base to supply non-covered services, there is no over-recovery of costs to be addressed through this policy. Services using these assets are not included in the MFA Policy.

3.3 Description of the Recording, Reporting Systems and Control Framework

Western Power upgraded its accounting system *Ellipse* in 2020 from a previous version of the same system. The accounting system was purchased as a stand-alone system with customisation for Western Power's business requirements. Access controls are embedded to ensure appropriate segregation of duties for different roles.

All payments received by Western Power for any service are recorded in the information technology accounting system. The financial records are updated regularly as payments are received into Western Power's bank account. The financial system records the revenue payments by account code.

- The first set of four digits of the accounting code indicate the responsible centre for the payment. This separates payments for unregulated services from payments for regulated services.
- The second set of four digits of the accounting code set out the activity type, which is the service name.
- The third set of four digits of the accounting code set out the asset category, whether it is transmission business, distribution business or corporate services.

The account codes are used to identify applicable payments in the accounting system after applying the MFA policy decision-making framework. The account codes are used to identify the payments that are included in the calculation of net incremental revenue.

The executive manager responsible for financial reporting reviews and approves the annual report detailing the amount of the applicable payments for the year and provides to senior management for acceptance. Reporting of applicable payments is included within standard internal management accounting practices, including internal audit and internal monthly management accounting reports.

Western Power engages an external auditor to conduct an audit of the financial and regulatory accounts to ensure they meet Australian accounting standards. Financial statements are prepared and externally audited annually.

3.4 No Material Impact on Covered Services

Western Power will continue to prevent any material impact to the supply of covered services arising from the supply of non-covered services.

Material impact refers to a discernible negative impact on the volume or quality of supply of covered services to electricity customers caused by the supply of non-covered services. If a situation arises where provision of the non-covered service may negatively impact on the covered service, Western Power will adjust the terms and conditions of the non-covered service to mitigate the material impact on the covered service.

3.4.1 New non-covered services

During the research and development of each new service, Western Power will conduct a market assessment to review the potential for impact on covered services. The assessment will include the expertise of managers across network asset planning and management, business development and regulatory services. The results of the impact assessment are documented and retained with product development materials. A successful outcome of the impact assessment, with a low likelihood of material prejudice, is required prior to the service being offered to customers.

The purpose of the assessment is to identify potential material negative impacts that the use of multi-function assets for the supply of non-covered services may have on the supply of covered services. Some assets may be operating at full capacity during peak periods and may not have available capacity to operate additional non-covered services, whereas other assets may not be impacted by capacity factors of the network and can readily accommodate non-covered services. Expected levels of demand for covered and non-covered services are considered as part of the assessment process.

3.4.2 Existing non-covered services

Non-covered services currently supplied have been assessed for impacts on the delivery of covered services. No material prejudice from the sale of current levels of non-covered services has been identified from the provision of covered services.

Confirmation of the rights of Western Power to undertake activities that protect the supply of covered services is written into customer contracts for the supply of non-covered services. There are typically standard contractual provisions that allow Western Power at any time to conduct any operational activities on network facilities that take precedence over the works that the other contractual party wishes to undertake, as well as clauses requiring the contracted party to remove, reattach or relocate their equipment if required to meet customer and regulatory requirements.

3.4.3 Ongoing monitoring

Western Power will use existing processes for performance monitoring to identify instances of material prejudice arising from the supply of non-covered services.

The service standards for quality and reliability are specified in the Access Arrangement. This is a requirement of the *Electricity Industry Act 2004*. Penalties may apply for breach of service standards. Performance against service standards is routinely monitored and enquiries/root cause analysis are undertaken.

3.4.4 Rectification measures

Where monitoring identifies that the supply of non-covered services has materially prejudiced the supply of covered services, Western Power will treat the issue as a high priority to be resolved. Western Power will put in place corrective measures to restore service supply and quality of services as soon as practicable, according to the circumstances of the situation. Western Power also will implement preventative measures to reduce the risks of re-occurrence of any issues such as modification of the service description, implementation of contractual changes, completion of repair or upgrade works or termination of the non-covered service.

4. Process for Identifying Payments Received

This section addresses the Guideline requirement below:

Guideline

Net incremental revenue

- For each pricing year during the access arrangement period the service provider must record all payments received for services that are not covered services.
- The service provider must provide detailed descriptions of each service that is not a covered service and categorise them between those that use assets in the regulated asset base and those that do not. Evidence to support these categorisations will be required.
- The service provider must document the process and any supporting accounting information it has used to derive payments received for services that are not covered services.
- The process must include a reconciliation with total payments received by the service provider to ensure that all payments received are accounted for as either payments for covered services or services that are not covered services.

4.1 Record of Payments for Each Pricing Year

There are two processes for recording payments: (i) an annual process and (ii) an end of Access Arrangement period process.

For the annual process, Western Power totals all payments received for each applicable non-covered service supplied during the financial year, as determined using the decision-making and accounting frameworks described above. The total annual payments for non-covered services are included as a line item in the Annual Financial Statements reported in the Annual Reports.

For the end of the Access Arrangement period process, Western Power calculates the annual payments across the Access Arrangement in net present value terms and obtains a total value for payments in the Access Arrangement period. The methodology for calculating the net present value is to apply the CPI to each year's annual payments. See the description of the CPI adjustment in Section 6.1

4.2 One Year Lag to Record Actual Payments

The revenue sharing arrangement in the MFA Policy uses actual payments, rather than forecast with ex post adjustments. To use actual data the financial year must be completed. The MFA Policy applies a one-year time lag to the payment data included in Access Arrangement annual payments.

The application of the policy is as follows:

- The first payment year is the final year of the previous Access Arrangement (Year 0).
- The following payment years are each year in the Access Arrangement except for the final year, typically Year 1,2,3 and 4. If the applicable access period is longer, additional years are included. If the applicable access period is shorter, fewer years are included.
- The payments for the final year of the Access Arrangement are included in the calculations of deductions in the subsequent Access Arrangement period.

Using this approach, the aggregated payment will reflect the revenue obtained for the number of years in the access period, without requiring the complexity of ex post adjustments to a target revenue adjustment

that would be disproportionate effort for the value of revenue to be shared. This approach ensures that customers will receive the actual revenue allowed in this policy, within a short timeframe of one year after the annual reporting of revenue received.

4.3 Service Descriptions

As the list of non-covered services will change from time to time over the course of an Access Arrangement, the list of non-covered services to which the policy applies is provided in Western Power's Initial Proposed Access Arrangement and updated in the Revised Proposed Access Arrangement. Providing the information in the Access Arrangement documentation will mean that the MFA Policy will not need to be updated when new non-covered services are introduced or removed.

4.4 Process for Asset Categorisation and Payments

The process to categorise non-covered services by their use of the network assets in the regulated asset base is set out below. The process will utilise the decision-making framework set out in Section 3 of this MFA Policy.

- During the business development process, expertise from network engineering will assess the service description and customer requirements to determine which networks assets are used for the supply of each non-covered services and therefore whether the MFA arrangements apply.
- A field is included in the regulatory asset database to identify that an asset is a multi-function asset.
- New non-covered services introduced within the year will be added with a code to the accounting system and payments received for supply of the non-covered service will be recorded.

This review has been undertaken in the MFA Policy Explanatory Statement for current non-covered services to be supplied in fifth Access Arrangement.

In subsequent Access Arrangements it will be contained in the Access Arrangement Information. The process and supporting accounting information to derive payments for non-covered services are described in Section 3 of this policy.

4.5 Payment Reconciliation

Annually, Western Power reconciles the payments received for applicable non-covered services, the payments received for non-applicable non-covered services and covered services against the general ledger to ensure that all payments are recorded, in a table similar to Table 1. The payments for each year are CPI-adjusted to bring the values to net present value. See the CPI adjustment in Section 6.1.

Table 1 Payments Reconciliation

Non-covered Service Payments	Year 0	Year 1	Year 2	Year 3	Year 4	TOTAL
Payments for Applicable Non-covered Services						
Payments for other Non-covered services						
Payments for covered services						
Total Payments for all services						

5. Net Incremental Revenue Methodology

This section addresses the Guideline requirement below:

Guideline

Net incremental revenue

Net incremental revenue for each unregulated service is calculated by identifying total payments received and deducting any payments that relate to recovery of the cost of additional assets, or modifications to existing assets, required to provide the unregulated service or for materials supplied.

The service provider must include the information above in its next access arrangement proposal to the ERA.

5.1 Meaning of Net Incremental Revenue

The net incremental revenue is defined in the Access Code “in relation to a *multi-function assets*, the revenue from all payments received by a *service provider* in excess of the revenue it would receive if the asset only provided *covered services* for a pricing year.”⁹

The Guideline provides a broad description for the methodology of calculating the net incremental revenue. The methodology removes from total payments, which are identified using the approaches described in Sections 3 and 4 above, the costs associated with acquiring additional assets, modifying existing assets and the cost of materials supplied.

The reason for deducting these costs is that they are costs incurred to supply non-covered services that are not paid for by customers using network assets in the regulated asset base. There is no over payment for these assets. The costs of these assets are fully recovered directly from the customers receiving non-covered services and therefore it is appropriate for such costs to be considered prior to any revenue adjustment.

Deductions for these payments is consistent with the objectives and principles of the MFA policy. The Access Code specifies that:

“A multi-function asset policy must:

*to the extent reasonably practicable, accommodate the interests of the service provider and of users and applicants;”*¹⁰

and

A multi-function asset principle is:

*“the service provider should be encouraged to use assets that provide covered services for the provision of other kinds of services where that use is efficient and does not materially prejudice the provision of covered services”*¹¹

⁹ Electricity Networks Access Code 2004 p.30

¹⁰ Access Code section 5.37

¹¹ Access Code section 6.86

This objective and principle of the MFA arrangements in the Code noted above are satisfied by the deduction of costs directly and wholly paid for by the customers of non-covered services. The interests of Western Power are met by ensuring the appropriate deductions are made to ensure that the pool of payments is not inflated by including costs that are not recovered through tariffs on covered services. At the same time the interests of users of covered services are protected through the additional revenue they receive (as lower tariffs) from Western Power maximising the use of spare capacity in network assets.

By applying the approach developed in the MFA Policy, Western Power is enabled to use assets efficiently in a way that does not materially prejudice the provision of covered services. Without deductions for costs, Western Power would be cross-subsidising electricity users to receive lower network prices than the value that the ERA determines as efficient. This could result in over consumption of electricity relative to the efficient level of demand. The cost deductions in the Guideline promote the efficient use of network assets.

5.2 Calculation of Net Incremental Revenue

The MFA Policy presents the description for the calculation of the Net Incremental Revenue in the Guideline, in the form of an equation.

The equation below is consistent with the Guideline because it represents the value of the payments for the use of multi-function assets that electricity customers are already paying for through the network charges component of their electricity bills. This is the revenue that is additionally recovered by Western Power and that end customers of electricity will receive a share of under this policy.

Applicable payments are calculated using the process described in Chapters 3 and 4. After the payments are obtained, deductions to the payments are made for the cost of additional assets, modifications to existing assets, required to provide the unregulated service, for materials supplied and other operational costs. Net incremental revenue for each non-covered service and for each year is summed.

For completeness an additional component, operational costs, that was not included in the broad description of the methodology described in the Guideline, is included in the MFA Policy. This is consistent with the intent of the Guideline to deduct from payments to Western Power any revenue received from customers of non-covered services, that is not recovered from electricity customers under regulated tariffs.

Equation 1

$$\sum NIR_t^n = \sum P_t^n - \sum A_t^n - \sum M_t^n - \sum Q_t^n - \sum O_t^n$$

Where,

NIR = net incremental revenue

n = applicable non-covered services identified using the decision-making framework set out in Section 3 of this policy

t = a year of the access arrangement

P = payments for applicable non-covered services recorded in accounting systems for the years as set out in Section 4 of this policy and resulting from using the decision-making framework set out in Section 3 of this policy;

A = cost of additional assets;

M = cost of modifications to existing assets;

Q = cost of materials used to supply the services;

O = costs attributed to the applicable non-covered services.

Each component of the equation that is a deduction from payments is described below.

Cost of additional assets (A) refers to payments made by customers for installation of new assets that are owned by the customer or gifted from the customer to Western Power. It would also include assets that are paid for and owned by Western Power that are necessary for the delivery of the non-covered service and are not multi-function assets. Payments made by customers for additional assets are not added to the regulated asset base at a value.

Cost of modifications to existing assets (M) refers to direct payments from customers for the cost of Western Power undertaking alterations to assets that are already installed to supply covered services. The alteration to the asset is not required for the supply of covered services to electricity customers. Rather it addresses the specific need of the customer of uncovered services. Whilst the cost of the original asset is being paid for by electricity used via covered tariffs, the cost of the alteration is recovered outside the tariff framework directly from the customer requesting the non-covered service.

Cost for materials supplied (Q) refers to the payments from a customer of non-covered services for the material inputs required to provide the non-covered service, without which the service could not be supplied. These materials are not already included in the regulated asset base because they are not required for the provision of covered services. These materials are specific to the supply of non-covered services to that customer. This category may include labour charges, such as for the undertaking the installation work associated with customer requested assets.

Operational costs attributed to non-covered service (O) Operational costs, such as labour costs, are incremental operational costs not recovered in network tariffs for covered services. As these costs are not already recovered from regulated tariffs, there is no issue of over-recovery to be resolved by sharing the revenue recovered for these costs.

The costs are attributed to non-covered services in two ways. Direct costs, such as labour, are time sheeted to the cost codes specific to the services where the labour was directed. For indirect costs, such as corporate services, a cost driver is identified and costs are allocated. The accounting system uses the same codes to identify the services that the costs are attributed to as the codes used for recording payments.

Rather than deducting the full costs in year 1 for each cost category above, cost recovery would be in the form of an annuity charged over the life of the contract, representing depreciation charge against the capitalised asset value.

Deductions are externally audited as part of the Regulated Accounts to ensure they comply with the regulatory requirements of this and related regulatory policies. The audit process provides the ERA with assurance of the accuracy of allocations of payments and costs to non-covered services.

5.3 Example Calculation of Net Incremental Revenue

This section sets out an example for a scenario where costs are deducted from payments to derive the net incremental revenue. The scenario and costs are for illustrative purposes only.

A customer applies to site a telecommunications satellite dish to be installed on a Western Power transmission tower. This requires the following project scope:

- Re-grading of access road to the transmission tower for logistical and construction purposes by Western Power.
- Reinforcement of transmission tower by Western Power.
- Installation of telecommunications dish with associated cables by customer in conjunction with Western Power crew.

The customer supplies the telecommunications dish and purchases cables from Western Power.

The costs involved for a 10-year contract are:

- \$50,000 rental of tower space for telecommunications dish
- \$5,500 (M) depreciation charge for the cost of the modified tower reinforcement of \$25,000 and charge for road upgrade costing \$30,000; and
- \$12,000 (Q) depreciation charge for cable materials costing \$120,000;
- \$10,000 (O) per annum for Western Power staff prepare and negotiate the terms and conditions for the non-covered service. This is a depreciation charge each year for the capitalised total operating cost added to the asset base.

Payments received from telecommunications firm in Year 1 is \$100,000(P).

The net incremental revenue is calculated as:

$$\begin{aligned}\text{NIR (year 1)} &= P - M - Q - O \\ \$72,500 &= \$100,000 - \$5,500 - \$12,000 - \$10,000\end{aligned}$$

5.4 Total Net Incremental Revenue

The net incremental revenue is calculated for each non-covered service and summed for each price year. It is comprised of the applicable payments calculated using the methodology described in Section 4 less the deductions described in Section 5.2 above. The annual values are adjusted by Consumer Price Index (CPI) to current value for year 4 use the method described in Section 6.1.

Consistent with the calculation of payments in Section 4 of this policy, a one-year lag is required to use actual payments in the calculation of net incremental revenue. The relevant years are from Years 1 to 4 of an Access Arrangement period, and the final year from the previous Access Arrangement (Year 0). This is set out in Table 2.

Table 2 Total Net Incremental Revenue for each pricing year

	Year 0	Year 1	Year 2	Year 3	Year 4	TOTAL
Total Applicable Payments for All Non-covered Services						
Less Deductions						
Total Net Incremental Revenue						

6. Calculation of Reduction to Target Revenue

This section addresses the Guideline requirement below:

Guideline

Calculation of reduction to target revenue

For any year where the total net incremental revenue from all unregulated services using multi-function assets is greater than \$1 million (CPI) a reduction to target revenue will be calculated.

The reduction will be calculated as 30 per cent of the total net incremental revenue received in that year.

An *ex-post* adjustment will be made to target revenue for the subsequent access arrangement period based on the sum of the annual reductions (adjusted for the time value of money).

6.1 CPI Adjustment to Net Present Value

The appropriate rates for the CPI adjustments are the percentages listed on the ERA website for CPI adjustments for the Electricity Networks Access Code 2004. The same rate as used for the Access Code threshold increases in section 6.80 (a) and (b) of \$1.5 million would be appropriate for the adjustment to the material threshold.¹² By way of example, in 2020 and 2021, the CPI adjustment was 2.2 per cent.

6.2 Material Payments

Applicable payments that are in aggregate below the value of \$1 million (Consumer Price Index (CPI) adjusted) in a pricing year will not be included in the total net incremental revenue for the Access Arrangement period. Both the payments, as described in Section 4, and the costs to be deducted, as described in Section 5 of this policy, for those years when applicable payments are immaterial, are omitted for the calculations for the MFA Policy for the Access Arrangement period.

Actual applicable payments are used for each year to compare to the materiality threshold of \$1 million. The materiality assessment will take place in the final year of the Access Arrangement period.

6.3 Calculation of the Reduction Amount

For pricing years where the net incremental revenue, across all applicable services, is greater than \$1 million (CPI adjusted), Western Power will calculate the revenue reduction as 30 per cent of the total net incremental revenue received in that year (adjusted for the time value of money).

The total value for the period is calculated by adding the value that represents 30 per cent of the net incremental revenue for each year during the period. As described in Section 4, Year 0 is the final year of the preceding Access Arrangement, and the fifth and final year is Year 4 of the current Access Arrangement, assuming the period is not extended. For Year 5 (or the final year in the case of an extension) of the Access Arrangement, the applicable payment and associated revenue reductions are applied in the subsequent Access Arrangement period.

Western Power will calculate the deduction amount in accordance with the approach outlined in this MFA Policy during the final year of the Access Arrangement and include an estimated amount in the proposed

¹² Consumer Price Index Adjustments - Economic Regulation Authority Western Australia (erawa.com.au)

Access Arrangement Information for the subsequent Access Arrangement. For the next Access Arrangement, the deduction amount is provided in the proposal due for ERA review and approval.¹³

Table 3 shows an example of a table to be used in Western Power’s Proposed Access Arrangement Information for the subsequent Access Arrangement period.

Table 3 Reduction to Target Revenue for each Pricing Year

	Year 0	Year 1	Year 2	Year 3	Year 4	TOTAL
Net Incremental Revenue (\$m)						
Adjusted net incremental revenue for time value of money (\$m)						
Material (Y/N)						
30 per cent reduction (\$m)						

6.4 Adjustment to Target Revenue

The total deduction amount is divided into a deduction that applies to transmission target revenue and a deduction that applies to distribution target revenue. The division is based on the relative proportion of target revenue for each sector.

The ERA will apply the total deduction amount to the target revenues for the subsequent Access Arrangement period, in a manner that is consistent with the smoothed profile of target revenue across the years in the Access Arrangement.

Consistent with the Access Code Section 6.85, when the ERA is deciding the amount to be deducted from the target revenue, the ERA must have regard to the MFA Policy and the multi-function asset guideline. In deciding the deductions, the ERA must abide by Western Power’s requirement to ensure that the only applicable services are included in the revenue sharing arrangements.

ERA may apply discretion upon consideration of the circumstances of Western Power at the time of making the decision on the deduction amount to account for matters that are not currently accommodated but which have a significant impact on the revenue or revenue sharing arrangements.

¹³ The ERA will review and calculate the total revenue reduction for each year of an access arrangement period at the subsequent access arrangement review. (ERA MFA Guideline p.12).

7. General Provisions

7.1 Implementation

This MFA Policy commences on 1 July 2023 which is the start date for the next Access Arrangement and concludes when the Access Code so determines it concludes or the ERA in consultation with Western Power decide that the policy concludes.

The calculation of the net incremental revenue with adjustments for the net present value and calculation of the revenue deductions is undertaken in the final year of the Access Arrangement.

7.2 Exemption for Payments Related to Emergencies and Government Directions

Payments are exempt from revenue sharing under this MFA Policy where payments are received for supply of non-covered services that are provided in response to emergency situations for example to other utilities. It is likely that Western Power would charge based on incremental cost recovery and not include a margin that would accommodate a 30 per cent revenue sharing arrangement, as this would be a reciprocal arrangement under circumstances where Western Power requires emergency assistance.

Similarly, governments may direct Western Power to undertake certain activities for which fees apply for payment by recipients of the services. These payments are also be exempt for the application of the MFA Policy.

8. Obligation to Provide Information

In respect to a multi-function asset, Western Power will provide the information described below to the ERA. Reporting on net incremental revenue is provided to the ERA on an annual basis and in the proposed Access Arrangement for the subsequent period.

8.1 Reporting Timeline

Annual payments will be reported for each year of the Access Arrangement and net incremental revenue is reported in year 4 and updated in year 5 of the Access Arrangement as shown in Figure 2.

Figure 2 Reporting Timeline

Access Arrangement Period	Year 1	Year 2	Year 3	Year 4	Year 5
Report Annual Payments (nominal)	✓	✓	✓	✓	✓
Sum Access Arrangement Payments (NPV adjusted)				✓	
Reconciliation of Payments (NPV adjusted)				✓	
NIR Forecast in Initial AA Information (NPV adjusted)				✓	
NIR Actual in Revised AA Information (NPV adjusted)					✓

8.2 Annual Financial Statements Reporting

Western Power will report the total annual payment across applicable services after the end of each reporting period. The data that is provided is an additional line item in the annual reporting of financial statements in Western Power's Annual Reports.

8.3 End of Period Reporting

Western Power will include in the proposed Access Arrangement information for the subsequent Access Arrangement calculations for:

- applicable payments for non-covered services for each year (see Table 1);
- reconciled payments for each year between covered and non-covered services (see Table 1);
- net incremental revenue adjusted for time value of money (see Table 2);
- the value of the revenue deduction for the period (see Table 3);
- in the Access Arrangement Information, the additional service descriptions for new non-covered services that are expected to be supplied in the subsequent Access Arrangement period. The Access Arrangement Information includes
 - evidence of categorisation of the services for use of RAB network assets or not; and
 - description of any rectification measures that were introduced to ameliorate material prejudice to the supply of covered services, should it occur.