Attachment 12.1

Multi-function Asset Policy Explanatory Statement

Revised proposed access arrangement information

15 November 2022

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

EDM 61978882

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1. Introduction

Western Power's *Multi-function Asset Policy* (MFA Policy) is designed to share the revenue earned by Western Power when regulated assets are also utilised for non-covered services. The revenues are generally earned in contestable markets where there is competition between multiple providers and often on a cost recovery basis.

A multi-function asset is an asset that is a network asset owned by the network service provider that is used to provide services other than covered services.

This MFA Policy Explanatory Statement:

- accompanies the MFA) Policy submitted with Western Power's Proposed Access Arrangement Information (AAI) for the fifth Access Arrangement period commencing on 1 July 2023; and
- will be maintained with up-to-date information and published on Western Power's web site; and
- provides the reasons for drafting the MFA Policy as submitted and includes tables demonstrating compliance with the requirements for the MFA Policy in the Electricity Networks Access Code 2004 ("Access Code") and the Multi-Function Asset Guideline (Guideline) as published on the website of the Economic Regulation Authority's ("ERA") on 15 October 2021.

2. Background to the Regulatory Requirements

The Access Code requirements, principles and specifications together with the ERA's MFA Guideline establish the regulatory arrangements for the MFA Policy. The MFA Policy details the approach that Western Power will utilise to meet the objectives and principles in a manner that is consistent with the components of the Guideline.

In September 2020, the Access Code was amended to support the delivery of the Western Australian Government's Energy Transformation Strategy. The amendments introduced a MFA framework, where the Authority must make and publish Guidelines after consulting with the public, and the network service provider must include a MFA Policy in the Access Arrangement.[1]

The requirements in the Access Code that the MFA Policy must achieve are as follows:

> *(a) to the extent reasonably practicable, accommodate the interests of the service provider and of users and applicants; and*
>
> *(b) be sufficiently detailed to enable users and applicants to understand in advance how the multi-function asset policy will operate; and*
>
> *(c) set out the method for determining net incremental revenue; and*
>
> *(d) be consistent with the multi-function asset guidelines.*[2]

The principles in the Access Code for the multi-function asset framework are as follows:

> *(a) 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;*
>
> *(b) a multi-function asset revenue reduction should not be dependent on the service provider deriving a positive commercial outcome from the use of the asset other than for covered services;*
>
> *(c) a multi-function asset revenue reduction should be applied where the use of the asset other than for covered services is material;*
>
> *(d) regard should be had to the manner in which costs of multi-function assets have been recovered or revenues of multi-function assets have been reduced in respect of the relevant asset in the past and the reasons for adopting that manner of reduction; and*
>
> *(e) any reduction effected under section 6.84 should be compatible with other incentives provided under this Code.*[3]

The specifications in the Access Code for the MFA Policy and directions that the ERA must follow are:

[1] Electricity Network Access Code (2004) Consolidated Version 18 September 2020 Section 5.1 (m) and Section 6.88

[2] Electricity Network Access Code (2004) Consolidated Version 18 September 2020 Section 5.3.7

[3] Electricity Network Access Code (2004) Consolidated Version 18 September 2020 Section 6.86

- *"If a network asset is used to provide services other than covered services (a "multi-function asset") the Authority must, in accordance with the multi-function asset principles, in an Access Arrangement period, reduce the target revenue for the service provider for a pricing year withing that Access Arrangement period by an amount equal to 30% of the net incremental revenue."*[4]
- *"the use of a multi-function asset other than for covered services is material if the net incremental revenue derived from the use of all multi-function assets in a pricing year is greater than $1 million (CPI-adjusted)."*[5]
- *"in making the decision under 6.84 the Authority must have regard to the multi-function asset policy and the multi-function asset guideline*."[6]

In October 2021, the ERA published the Guideline to provide more detail about the approach to be taken by Western Power in drafting the MFA Policy.[7] The Guideline sets out the required content of the MFA Policy to be comprised of the following components:

i) identification of multi-function assets;

ii) determination of net incremental revenue;

iii) calculation of reduction to target revenue.

The Access Code requirements, principles and specifications are met by Western Power's MFA Policy as set out in Table 8.1 in Section 8 of this statement. The components of the Guideline are met by Western Power's MFA Policy as set out in Table 8.2 in Section 8 of this statement.

Other recent regulatory decisions that are relevant to this MFA Policy are the ERA's Framework and Approach Final decision on Western Power's service classification[8] (Framework and Approach) and the ERA's Excluded Service Determination[9] for services provided by batteries owned by Western Power, which excludes the cost of batteries from the regulated asset base (RAB). The ERA determination on Western Power's investments in batteries means that network services offered to other parties from use of its batteries, is outside the scope of the MFA Policy.

The Framework and Approach states:

> "*a new service classification is required for non-covered services provided by multi-function assets... the MFA Policy is the best instrument to ensure that revenue from multi-function assets is correctly allocated between covered and non-covered services....Although non-covered services fall outside the scope of the Access Arrangement, to ensure that services have not been misclassified, Western Power will be required to provide details of any other non-covered services provided."*[10]

Some concepts of the MFA Policy framework contained in the Access Code and Guideline are developed from the Australian Energy Regulator's "*Better Regulation: Shared Asset Guideline*" and accompanying Explanatory Statement, that were published in 2013.[11]

[4] Electricity Network Access Code (2004) Consolidated Version 18 September 2020 Section 6.84

[5] Electricity Network Access Code (2004) Consolidated Version 18 September 2020 Section 6.87

[6] Electricity Network Access Code (2004) Consolidated Version 18 September 2020 Section 6.84 and 6.85

[7] ERA (October 2021) *Multi-function asset guideline- Decision*

[8] ERA (August 2021) *Framework and approach for Western Power's fifth access arrangement review – Final decision*

[9] ERA (October 2021) *Excluded service determination for services provided by batteries owned by Western Power – Determination* "The ERA considers that network support services provided by batteries are contestable and meet the requirements for an excluded service. …Under this approach, the capital cost of the battery sits outside the regulated business and is not included in Western Power's regulated asset base."

[10] ERA (August 2021) *Framework and approach for Western Power's fifth access arrangement review – Final decision* p.11-12

[11] AER (November 2013) Better Regulation: Shared Asset Guideline and AER (November 2013) Better Regulation: Explanatory Statement Shared Asset Guideline

3. Purpose of the MFA Framework

3.1 Policy Objectives of the MFA framework

The background information that was provided by Energy Policy WA and the ERA during the process for developing the regulations that apply to Multi-Function Asset Policy, outline two main objectives of the MFA framework.

The first objective of the MFA framework is to introduce a revenue sharing arrangement to address circumstances where there has been over-recovery of costs associated with regulated asset by sharing revenue with electricity users. Over-recovery arises from additional revenue obtained by using regulated network assets that supply covered services, which are paid for by electricity customers, for the purpose of supplying non-covered services to third parties.

The second objective is to encourage Western Power to make more use of network assets and generate more revenue that both customers and Western Power can benefit from.

These objectives were presented by the Energy Transformation Taskforce in September 2020 in their summary of submissions received in response to the consultation paper as:

> *The introduction of multi-function asset provisions, which seeks to address a gap in the existing regulatory framework by codifying a process to allow a network operator to earn additional revenue from an asset included, either in-part or in-full, in the regulated asset base where that revenue is shared with users of regulated services through lower network tariffs….*
>
> *The intent of the multi-function asset provisions is not to provide Western Power with an incentive to pursue unregulated revenue at the expense of third-party providers of energy services, but rather to ensure that Western Power is not being paid twice for the same asset.*"[12]

Both objectives were noted by the Energy Transformation Taskforce in their May 2020 consultation process for the amendments to the Electricity networks Access Code. The amendments to the Access Code were designed to ensure that:

> *"• the network service provider is incentivised to pursue new unregulated services that increase the use of the existing network by allowing it to earn higher profits; and*
> *• a share of the benefits of this increased utilisation (and profit) are passed through to end-use customers, who ultimately pay for the shared network through either their capital contributions or the payment of reference tariffs."*[13]

Both objectives were re-iterated by the ERA in the April 2021 Framework and Approach issues paper:

> *"The Access Code amendments for multi-function assets were intended to ensure that Western Power is not paid twice for the same asset and to encourage Western Power 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."*[14]

[12] Energy Transformation Taskforce (Sept 2020) *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code 2004: Stakeholder Submissions Summary* p. 3

[13] Energy Transformation Taskforce (May 2020) *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code* p.21

[14] ERA (April 2021) *Framework and approach for Western Power's fifth access arrangement review – Issues Paper* p.13

Western Power's MFA Policy has been designed to meet the Western Australian Government and the ERA objectives.

3.2 Key Principle of Western Power's MFA Policy

The key principle for the MFA Policy that follows from the two objectives is that the revenue to be shared with customers is calculated from the payments that Western Power receives for those non-covered services which rely on the use of assets which also earn a rate of return in regulated tariffs from the supply of covered services. If the only source of revenue that is received from a multi-function asset is the regulated tariff, those payments are not part of the MFA Policy as there is no over-recovery to be shared.

If this principle was not applied there is a risk that the revenue sharing arrangement includes payments for the use of assets for which there is only one revenue source or where there is not utilisation of regulated assets. This would result in electricity users being over-compensated by receiving a cross-subsidy from customers of non-covered services. This would be an inefficient outcome contrary to the pricing objective in the Access Code.[15]

3.3 MFA Policy Addresses the Policy Objectives

This first objective to address the issue of over-recovery is addressed in the MFA Policy by sharing 30 per cent of the net incremental revenue received as reductions to future charges for electricity users.

The second objective to encourage Western Power to make more use of existing network assets is addressed in the MFA Policy in the following two ways:

- The MFA Policy includes only the assets and payments related to the multi-function assets in the regulated asset base (**RAB**); and
- accounting for the costs to deliver the applicable non-covered services that are not recovered in regulated tariffs. Without these deductions Western Power's costs to supply non-covered services would be unrecoverable and Western Power would not be incentivised to make more efficient use of regulated assets.

In summary, the MFA Policy sets out the procedure that Western Power follows to identify the payments for non-covered services that meet the Guideline requirements to be shared with electricity users.

The test for appropriateness is based on the key principle that the costs of multi-function assets are being recovered from both regulated tariffs for covered services via the return on the RAB in regulated tariffs and from payments from the customers of non-covered services.

The approach used in Western Power's MFA Policy both addresses the issue of over-recovery of the costs of using multi-function assets whilst also retaining incentives for Western Power to continue to provide non-covered services without material impact on its provision of covered services.

4. Decision-Making Framework

4.1 Multi-function Assets

The Guideline specifies two necessary conditions for an asset to be considered a multi-function asset.[16]

The first condition required to meet the definition of multi-function asset is that the asset must be used to provide covered services.

The second condition is that the asset also provides services that are not covered services. Following from the conditions, the Guideline requires payments to be separately identified for non-covered services that are associated with assets in the RAB and those that are not.

Whilst both the conditions and the identification of RAB assets are important in describing multi-function assets, they are not sufficient to identify the non-covered services and related payments that the revenue sharing arrangements should apply to. Consideration of additional factors are needed to clearly define the scope of the payments included in the MFA Policy to be consistent with the Policy objectives of the framework to address the issue of over recovery for the use of shared assets. The need for the MFA Policy to determine the in-scope assets and services was recognised by the ERA in the Guideline:

> *"The draft guideline does not restrict the types of asset that will be captured by the multi-function asset provisions. The regulated asset base includes all assets that provide covered services that have been, or are being, paid for by customers. This includes assets that were funded by capital contributions or assets that were gifted to Western Power. The draft guideline requires Western Power to set out how it will identify any unregulated services that use assets included in the regulated asset base."*[17]

Western Power is required to develop an approach in the MFA Policy to identifying the services and relevant assets that are within scope of the revenue sharing arrangements. These additional considerations are included in the decision-making framework outlined in the MFA Policy Chapter 3 and explained below.

4.2 Reasons for Steps in the Decision-Making Framework

The steps of the decision-making framework ensure that only the assets, and the services that are delivered from the use of those assets, that generate a second source of revenue for Western Power are included in the revenue sharing arrangement. This is consistent with regulatory objectives of the multi-function asset framework set out in Section 2 of this explanatory statement. It is also consistent with existing cost allocation policies and RAB recording practices in operation at Western Power.

Each step in the MFA Policy decision-making process is essential to ensure that the Policy only applies to payments for services that are also being paid for by customers as a return on the RAB, now or in the past. The decision-making framework developed by Western Power has five steps which are explained below.

1. Is the service a non-covered service?

[16] ERA (October 2021) Multi-function asset guideline p.4
[17] ERA (October 2021) Multi-function asset guideline p.5

This step ensures that only non-covered services are within the scope of the MFA Policy. Non-covered services are services supplied by Western Power that are not covered services. Covered services are defined in the MFA policy. [18]Payments received from customers' purchases of non-covered services are the subject of the revenue sharing arrangements in the MFA Policy. Payments that Western Power receives for covered services are based on regulated tariffs approved by the ERA and are not within scope of this MFA Policy.

2. Is the activity for goods or for services?

The MFA Policy applies to services and does not apply to goods.

The regulations in the Access Code that describe the MFA Framework specify that the arrangement apply to 'services other than covered services'.

> *"If a network asset is used to provide services other than covered services (a "multi-function asset"), the Authority must, in accordance with the multi-function asset principles, in an Access Arrangement for an Access Arrangement period, reduce the target revenue for the service provider for a pricing year within that Access Arrangement period by an amount equal to 30% of the net incremental revenue."*[19]

The Access Code also defines services as:

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

The Guideline directly excludes the application of the MFA Policy to goods, with reference to the example of materials.

> "*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."*[20]

As materials do not convey electricity, they are not services and not included in the MFA Policy.

3. Does the service use network assets?

Several non-covered services do not use network assets. The definition of a MFA, as stated in paragraph 2 above, requires the asset to be a "network asset". Network assets are defined in the Access Code and are typically apparatus, equipment, plant and buildings and are either connection assets or shared assets used for the transportation of electricity from generation to other infrastructure or end users. Network assets also include stand-alone power systems and storage works.

Any services supplied without the use of network assets are not included in the MFA Policy. Several of the non-covered services currently supplied by Western Power do not use network assets because they are labour related activities. An example of this is Engineering Design Consultancy which uses the services of Western Power personnel rather than its network assets.

[18] "**covered service**" means a *service* provided by means of a *covered network*, including: 47 (a) a *connection service*; or (b) an *entry service* or *exit service*; or (c) a network use of system service; or (d) a *common service*; or (e) a *service* ancillary to a service listed in paragraphs (a) to (d) above, but does not include an *excluded* service.

[19] Access Code Section 6.84

[20] ERA (October 2021) Multi-function asset guideline- Decision p.6

The MFA Policy requires that the use of network assets is integral to the supply of the service.

Insignificant or inconsequential use of network assets in the supply of a service would mean that those network assets are not integral to such supply. Insignificant use of a network asset would include:

- transitory use, such as one-off use; or
- a small number of assets in the category are used.

Insignificant usage is generally not charged to customers and so there is no revenue recovery for the cost of network assets that needs to be addressed by revenue sharing. The administrative burden of implementing arrangements to capture and apportion the insignificant usage of network assets and charge customers for such use is likely to exceed the revenue to be earned by the apportionment.

4. Are the asset costs already allocated to unregulated services?

Western Power currently applies a cost allocation method to apportion shared services costs to programs and projects.[21] This achieves:

- standardised cost allocation rules and a consistent allocation of non-attributable network shared costs; and
- accountability for the allocation of network shared costs, and sensible and relevant cost allocation.

It is necessary to consider the historic implementation of Western Power's cost allocation procedures to exclude wholly or partially from the MFA Policy any network assets where the associated costs have already been wholly or partly allocated outside the RAB.

Any proportion of a network asset that remains in the RAB is solely used for covered services with any proportion used for the non-covered services already allocated outside of the RAB and not charged and paid for by electricity users via regulated tariffs.

This treatment means that there is no over-recovery of costs by Western Power. To do otherwise and share revenue from assets that are not in the RAB would be inefficient.

Further, the consideration of historic implementation of the cost allocation principles is consistent with the MFA principles in the Access Code.

> *regard should be had to the manner in which costs of multi-function assets have been recovered or revenues of multi-function assets have been reduced in respect of the relevant asset in the past and the reasons for adopting that manner of reduction;*

It is also consistent the with the AER's *Shared Asset Allocation Guideline* which similarly excludes costs that are already the subject of existing cost allocations.

> *"If the allocation of costs between regulated and unregulated services was correct, why would a shared asset mechanism be required? The answer is that it would not. However, as the intended use of an asset may change, there is a need for a shared asset mechanism….*

[21] Western Power Cost and Revenue Allocation Method

Asset cost allocation generally only changes if the services provided by that asset are re-classified. This semi-permanent cost allocation does not reflect new or growing unregulated revenue streams. Standard control assets may earn additional unregulated revenues without distributors removing any asset value from the standard control asset base or changing their cost allocation."[22]

[22] AER (2013) Better Regulation: Explanatory Statement Shared Asset Guideline p.44

5. Actual Payments

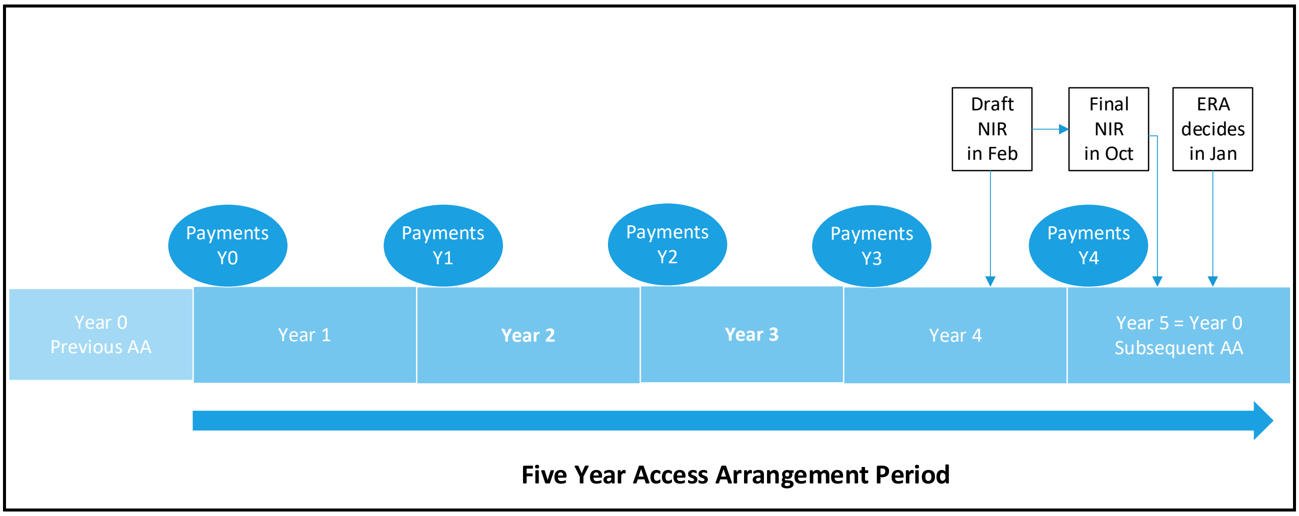
The MFA Policy uses actual data rather than forecast data for the recording of payments received by Western Power. The key benefit of using actual data is that there is no adjustment needed at a later date. To use actual data, the financial year and associated audit must be completed. This is also consistent with the MFA Guideline, which refers in the past tense to net incremental revenue as 'payments received by the service provider'.

The MFA Policy recognises that the final report on payments is made in February of the final year of an Access Arrangement period. The final report will also contain the calculation of the revenue deduction amount. As the final year is not completed until July and the audited reports several months later, the February end of period report cannot include actual payments for the final year.

To overcome this issue, the MFA Policy incorporates a one-year time lag into the calculations of the Total Annual Payments. The final year of the preceding Access Arrangement period is brought into the calculation and the final year of the current Access Arrangement is slipped to the following end of period reporting.

In this way, each revenue deduction amount includes revenue across the same number of years in the Access Arrangement but lagged one year. The exception is for the initial Access Arrangement period in which the Policy applies because there is no calculation of a total annual payment for the preceding Access Arrangement period when the Policy was not developed. Figure 5.1 Implementation timeline for MFA Policy Calculations sets out the implementation timeline for MFA Policy calculations with the one-year time lag.

Figure 5.1 Implementation timeline for MFA Policy Calculations



6. Reporting Arrangements

The MFA Policy provides for both annual reporting and reporting in the AAI. The reasons for each reporting period are set out below.

6.1 Annual Regulatory Financial Statements Reporting

The information to be provided annually is the total payments received from applicable non-covered services. This will be provided as a line item in the annual regulatory financial statements. Each year the payments received for regulated services is separate from the payments received for unregulated services to prepare the regulatory financial accounts.

This annual reporting commitment in the MFA Policy is an additional step to be introduced to current reporting practices. The additional step is the application of the decision-making framework to the unregulated payments to identify the payments to which this MFA Policy applies. An additional step will also be added to the audit review procedure to ensure the accuracy of the payments of non-covered services is verified for the regulatory accounts.

It is important to conduct these activities close to the period in which the payments are made so inquiries can be progressed whilst the information is readily available from staff and records. New processes and internal data collection are also likely to be required and it is preferrable to develop these during the sales and provisioning activities rather than attempt to gather the information several years after the date the activities took place. Identifying the applicable payments annually allows time for improvements to be made within the period and regular audit to be conducted.

6.2 End of Period Report

The end of period report will be documented in the AAI. The information to be reported will include:

- Detailed service descriptions of non-covered services;
- Classification of services into services using the RAB network assets and those that do not, with evidence;
- Total Annual Payments for each relevant year adjusted for net present value;
- Net incremental Revenue for each year;
- Application of the $1 million (CPI adjusted) threshold to determine if the revenue is material; and
- The amount of revenue equal to 30 per cent of total net incremental revenue when material for the revenue reduction.

The timing of the provision of the above information at the end of the period is because the information is not useful until data for all the years data is collated for the calculation of the revenue reduction. To report more frequently than necessary would introduce inefficient costs.

7. Access Arrangement Information (AAI)

The MFA Policy contains the detailed service descriptions and the information used to categorise the services for the non-covered services that will apply at the start of the fifth Access Arrangement period

As the list of non-covered services will change from time to time during an Access Arrangement period, only an example list of non-covered services to which the Policy applies is provided in Western Power's Initial AAI. Details of the relevant non-covered services will be reported in Western Power's annual regulatory financial statements.

The information for categorising services as non-covered services are also provided in the AAI. The information used for categorisation may change with the service description changes. This is the particularly likely when new processes are developed for implementation of the MFA Policy.

7.1 Service Descriptions for Non-covered Services

Table 7.1 provides a list of non-covered services that were supplied by Western Power between 2019-2021 and the service descriptions for each non-covered service. Over time it is expected that service types may change as they cease to be supplied or new services are added.

Table 7.1 Detailed service descriptions

	Non-covered Service	Description
1	Meter Data Provision	Provision and sale of customer metering data using existing metering infrastructure to a third party for energy billing purposes to support a commercial rooftop solar arrangement.
2	Co-Siting	Rental of available space on Western Power's communication assets to third parties to external parties.
3	Engineering Design Consultancy	Provision of independent engineering services to external parties.
4	Fleet Services / External Fleet	Provision of vehicle maintenance and/or management services.
5	Material Sales	Sale of electrical industry equipment to the private sector. For example, cable, pits, transformers.
6	Power Training Services	Provision of external training services that that will lead to formal qualifications in the electricity supply industry.
7	Rent	Rental of land that Western Power owns but has no use of in the short/medium term.
8	RUPP Opex	Replacement of end-of-life overhead assets with underground assets in collaboration with LGAs – House connection component only.
9	Small Cells	Rental of space on overhead assets to third party service providers
10	SUPP Opex	State Government initiative that was set up to convert overhead power underground. Under the current guidelines, Local Government Authorities (LGAs) can nominate areas to be converted.
11	Vegetation	Trimming of vegetation to ensure sufficient separation from electrical infrastructure.

12	Fibre Lease	Leasing of spare fibre capacity (duct, cores etc) from the telecommunications network to third parties.

The above table lists known scenarios of non-covered services assessable under the MFA policy at the time of publication. This list isn't exhaustive and new services may be introduced. This MFA Explanatory statement will be published on Western Power's Web-site and updated periodically with up to date information.

7.2 Categorisation of Non-covered services

Application of the decision-making framework outlined in Western Power's MFA Policy to the current set of non-covered services is summarised below in Table 7.2.

Table 7.2 Categorisation of whether non-covered service uses RAB assets

Number	Non-covered Service	RAB Network Asset used	Valued in RAB?	Included or Excluded from MFAP
1	Meter Data Provision	meters	Y	Included
2	Co-Siting	Buildings	Y	Included
3	Engineering Design Consultancy	n/a	n/a	Excluded, no use of network assets
4	Fleet Services / External Fleet	n/a	N	Excluded, no use of Network assets as Fleet is not on the RAB
5	Material sales		N	Excluded, this is a good, not a service
6	Power Training Services	Land and Buildings	Y	Included
7	Rent	Land and Buildings	Y	Included
8	RUPP Opex	n/a	n/a	Included, underground network assets
9	Small Cells	n/a	n/a	Included
10	SUPP Opex	n/a	n/a	Included, underground network assets
11	Vegetation	n/a		Excluded, no use of Network assets as Fleet is not on the RAB
12	Fibre Lease	Telecommunications network	Y	Included

7.3 Results of Categorisation of Non-covered services

Table 7.3 and Table 7.4 set out the results of the application of the decision-making framework to the current non-covered services. The categorisation of services by network assets will not change for each service type.

In future years, this information will be provided as part of the reporting Evidence to support the categorisation of assets as multi-function assets is provided below.

Table 7.3 List of non-covered Services that use network assets in the regulated asset base

Number	Service	Network Asset
1	Meter Data Provision	Advanced Metering Infrastructure (AMI)
2	Co-Siting	Buildings
6	Power Training Services	Land and Buildings
7	Rent	Land and Buildings
8	RUPP Opex	Underground assets
9	Small cells	Overhead assets
10	SUPP Opex	Underground assets
12	Fibre Lease	Telecommunications network

Table 7.4 List of current non-covered services that do not use network assets in the regulated asset base

Number	Service
1	Engineering Design Consultancy
2	Fleet Services / External Fleet
3	Material Sales
11	Vegetation

8. Regulatory Compliance Check

This section sets out where each regulatory requirement from the Access Code in Table 8.1 and the Guideline in Table 8.2 is addressed in the MFA Policy.

Table 8.1 Compliance of Policy with Access Code

Section of Access Code	Summary of Code Requirement	Addressed in the MFA Policy
Section 5.1 (m)	An Access Arrangement must: (m) include a *multi-function asset policy* under section 5.37.	Appendix D, Multi-function Asset Policy.
Section 5.37	A *multi-function asset policy* must: (a) to the extent reasonably practicable, accommodate the interests of the *service provider* and of *users* and *applicants*;	The interests of the service provider are accommodated in the MFA Policy as explained in the decision-making framework in Section 3.2 and the calculation of net incremental revenue in Section 5.2 which nets costs from revenue. The 30% revenue sharing accommodates the interests of users and applicants.
	b) be sufficiently detailed to enable *users* and *applicants* to understand in advance how the *multi-function asset policy* will operate;	For each of the key components of the MFA Policy the details of the: - decision-making framework for identifying applicable payments is explained in Section 3.2; - service descriptions are provided in proposed Access Arrangements as set out in Section 4.3; and - the formula for calculating net incremental revenue is set out in Section 5.2.
	(c) set out the method for determining *net incremental revenue*;	Section 5 of the MFA Policy sets out the methodology for determining net incremental revenue. Section 5.1 discusses the meaning. Section 5.2 details the calculation and explains each component of the definition. Section 5.3 provides an example and Section 5.4 sets out the total net incremental revenue for each year
	(d) be consistent with the *multi-function asset guidelines*.	The MFA Policy sets out Western Power's approach to address each requirement of the MFA Guideline. Sections in the MFA Policy begin with the Guideline requirements and follow with sections that address each requirement of the Guideline.

Section of Access Code	Summary of Code Requirement	Addressed in the MFA Policy
Subchapter 6.4 Multi-function assets: Section 6.84	If a *network asset* is used to provide *services* other than covered services (a "**multi-function asset**"), the *Authority* must, in accordance with the *multi-function asset principles*, in an Access Arrangement for an *Access Arrangement period*, reduce the *target revenue* for the *service provider* for a *pricing year* within that *Access Arrangement period* by an amount equal to 30% of the *net incremental revenue*.	Economic Regulation Authority (ERA) to calculate.
Section 6.86	The *multi-function asset principles* are as follows:	
	(a) 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*;	Western Power is encouraged to use the multi-function assets for efficient provision of other services where that use is efficient in terms of making positive margins. See Explanatory Statement Section 3 and the formula for calculating net incremental revenue which are set out in Section 5.2 in the MFA Policy. Western Power will ensure that these activities do not materially prejudice the provision of covered services as described in Section 3.4 of the MFA Policy.
	(b) a *multi-function asset* revenue reduction should not be dependent on the *service provider* deriving a positive commercial outcome from the use of the asset other than for *covered services*;	The methodology for calculating the revenue reduction in the MFA Policy does not vary according to positive or negative commercial outcomes for the sale of non-covered services. The amount of revenue shared that is derived using the MFA Policy methodology varies with the level of commercial returns for non-covered services that Western Power earns in contestable markets.
	(c) a *multi-function asset* revenue reduction should be applied where the use of the asset other than for *covered services* is material;	The MFA Policy sets out that only payments that are material are eligible to be included in the total net incremental revenue for the revenue deduction calculation. The ERA will determine how the revenue deduction is implemented in the subsequent Access Arrangement.
	(d) regard should be had to the manner in which costs of *multi-function assets* have been recovered or revenues *of multi-function assets* have been reduced in respect of the relevant asset in the past and the *reasons* for adopting that manner of reduction; and	The MFA Policy excludes from the Policy multi-function assets for which costs have been reduced as set out in Section 3.2 of the MFA Policy. Explanation of the process for identifying payments received is provided in this explanatory statement in Section 4.

Section of Access Code	Summary of Code Requirement	Addressed in the MFA Policy
	(e) any reduction effected under section 6.84 should be compatible with other incentives provided under this Code.	The ERA to determine that the deduction is compatible with the incentives under the Code.
Section 6.87	For the purpose of section 6.86(c), the use of a *multi-function asset* other than for *covered services* is material if the *net incremental revenue* derived from the use of all *multi-function assets* in a *pricing year* is greater than $1 million (*CPI adjusted*).	The MFA Policy includes the threshold over which the total net incremental revenue is material at $1 million (CPI adjusted) across all applicable services in the pricing year in Section 5.5.

Table 8.2 Compliance of Policy with Guideline Requirements

Guideline	Requirement	Multi-Function Asset Policy
Contents of multi-function asset policy	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.	Section 3: Section 3.1 Overview of the Decision-Making framework for identifying non-covered services; and Section 3.2 Explanation of the Decision-Making Framework
	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.	Section 3: Section 3.3 Description of the Recording and Reporting Systems
	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.	Section 3: Section 3.4 No material impact on Covered Services
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.	Section 4: Section 4.1 Record of Payments for each Pricing Year
	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.	Section 4: Section 4.3 Service Descriptions Section 4.2 One Year Lag to Record Actual Payments Evidence is provided in the Proposed Access Arrangement Information

Guideline	Requirement	Multi-Function Asset Policy
	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.	Section 4: Section 4.4 Process for Asset Categorisation and Payments Section 4.5 Payment Reconciliation
	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.	Section 5: 5.2 Calculation of Net Incremental Revenue 5.4 Total Net Incremental Revenue
	The service provider must include the information above in its next Access Arrangement proposal to the ERA.	Appendix D, Multi-Function Asset Policy and Proposed Access Arrangement Information
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 (Consumer Price Index-adjusted) a reduction to target revenue will be calculated.	Section 5: 5.5Material Payments
	The reduction will be calculated as 30 per cent of the total net incremental revenue received in that year.	ERA to calculate
	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).	ERA to adjust