Accounting Practice and Guideline Manual

Supporting document 5.1.6

SA Power Networks
www.sapowernetworks.com.au

Contents

1. Introduction

The Accounting Practice and Guideline manual sets out the required accounting treatments for items in the Statement of profit or loss and other comprehensive income and the Statement of financial position.

The manual consists of:

- Statements of accounting practice; and
- Guidelines.

Compliance with the accounting treatments set out in the manual will ensure that SA Power Networks fulfils its legislative and reporting requirements.

The Statement of accounting practice and guidelines will refer to the requirements of:

- The Partnership Agreement;
- Accounting Standards; and
- Other mandatory professional reporting requirements.

These documents should be read in conjunction with the manual as the information contained in these sources has not been repeated in the manual.

The Chief Financial Officer is responsible for ensuring the Accounting Practice and Guidelines manual is kept current and meets SA Power Networks' financial reporting requirements.

1.1 Update schedule

The Accounting Practice and Guidelines manual should be reviewed and updated as necessary, on an annual basis.

1.2 Inquiries

Please contact Financial Accounting if you have any queries regarding the contents of this manual.

2. Statement of Accounting Practice for External Reporting

1. PURPOSE AND SCOPE

This Statement sets out SA Power Networks' external reporting requirements.

This statement applies to the preparation of the SA Power Networks' Financial Report as required for external reporting purposes.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 General

SA Power Networks shall apply the accrual method of accounting.

The four (4) primary statements being;

- the Statement of profit or loss and other comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity, and
- the Statement of cash flows are prepared

…in accordance with the Partnership Agreement, applicable Accounting Standards and other mandatory professional reporting requirements to ensure they present a true and fair view of the financial position at balance date, and the results of operations for the period.

2.2 The Statement of profit or loss and other comprehensive income

2.2.1 The format of the Statement of profit or loss and other comprehensive income is in accordance with AASB 101, 'Presentation of Financial Statements'.

2.2.2 SA Power Networks is a Partnership and as such, is not subject to Australian tax law (except for the wholly owned subsidiaries). Tax is only recognised in respect of tax obligations of wholly owned subsidiaries, but Partners' tax obligations are <u>not</u> recognised at the Partnership level (but at the individual Partner level).

2.2.3 SA Power Networks reports income tax as required by applicable accounting standards. All other State and Federal government charges including royalties, levies and taxes are generally operating expenses.

2.3 The Statement of financial position

The format of the Statement of financial position is intended to comply with the format set out in AASB 101, 'Presentation of Financial Statements'.

2.4 The Statement of changes in equity

The format of the Statement of changes in equity is intended to comply with the format set out in AASB 101, 'Presentation of Financial Statements'.

2.5 The Statement of cash flows

SA Power Networks follows the requirements of AASB 107, ‘Statement of Cash Flows’ for the preparation of this statement.

3. DEFINITION OF TERMS

3.1 In accordance with the Accounting Standards, Legislation and other sources referred to in the reference section of this document.

4. DISCUSSION

SA Power Networks Financial Reporting is in accordance with the Partnership Agreement, applicable Accounting Standards and other mandatory professional reporting requirements.

SA Power Networks has developed its own accounting practices to clarify the accounting standards, where required. In developing these practices, accounting convention, commercial and industry practice is used as a guide.

SA Power Networks annual financial statements consist of a Statement of profit or loss and other comprehensive income, a Statement of financial position, a Statement of changes in equity, a Statement of cash flows, explanatory notes to the accounts and a Partners statement.

The financial statements of SA Power Networks are subject to a semi-annual external audit (with a review opinion provided on the half-yearly accounts and an audit opinion on the year-end accounts).

Disclosure requirements for accounting policies are specifically set out in AASB 101 ‘Presentation of Financial Statements’. These requirements are met in the Significant accounting policies Note in SA Power Networks’ annual financial statements.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 101 ‘Presentation of Financial Statements’

6.2 AASB 107 ‘Statement of Cash Flows’

3. Statement of Accounting Practice for Accounting for Provisions, Contingent Assets and Liabilities

1. PURPOSE AND SCOPE

This Statement sets out the accounting treatment of SA Power Networks' provisions, contingent assets and liabilities.

AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' require all material contingent assets and liabilities to be disclosed in the financial statements, except those which are considered highly improbable of occurring.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 Contingent gains should not be recognised as income or as an asset in the financial statements. The existence of material contingent gains should be disclosed if it is probable that the gain will be realised.

2.2 A contingent loss should not be recognised as an expense or a liability unless:

a) it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability incurred at reporting balance date; and

b) a reasonable estimate of the amount of the resulting loss can be made.

If either of the above conditions is not met, the existence of the contingent loss, if material, should be disclosed as a note to the financial statements, unless the possibility of a loss is remote.

2.3 The following information should be included in the notes to the financial statements:

- a description of the nature of the contingency;
- an estimate of the financial effect of the contingency;
- details of any uncertain factors that may affect the future amount or timing of any outflow; and
- the possibility of any reimbursement.

2.4 Agreements equally proportionately unperformed should not be considered as a contingent liability or asset.

2.5 A provision shall be recognised when an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

If all the above conditions are not met, no provision shall be recognised.

3. DEFINITION OF TERMS

3.1 Contingent asset

A contingent asset is an asset which is dependent on a contingency.

3.2 Contingent liability

A contingent liability is a liability which is dependent on a contingency.

3.3 Contingency

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be confirmed on the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the entity.

3.4 Probable

The term probable means that the chance is more likely than not.

3.5 Provision

A liability of uncertain amount or timing.

3.6 Agreements equally proportionately unperformed

Agreements equally proportionately unperformed are agreements in which neither party has fulfilled any promises, and agreements in which both parties have performed to an equal extent some of the promises while other promises have yet to be honoured. Examples of such agreements include purchase orders for materials and equipment, leases, forward exchange contracts and tree trimming contracts.

4. DISCUSSION

4.1 Contingent asset

Contingent gains will not be recognised as income or as an asset in the financial statements. The existence of material contingent gains should be disclosed when it is probable that the gain will be realised. Contingent gains are not recognised in the financial statements since this may result in the recognition of revenue which may never be realised. When the realisation of a gain is virtually certain, then such a gain is not a contingency and recognition of the gain is appropriate.

An example of a potential contingent asset is legal action taken by SA Power Networks, awaiting judgement.

4.2 Contingent liability

A contingent loss will not be recognised as an expense or a liability. The existence of material contingent losses should be disclosed when it is probable that the loss will be realised. Contingent losses are not recognised in the financial statements since this may result in the recognition of an expense which may never be realised. When the realisation of a loss is virtually certain, then such a loss is not a contingency, and recognition of the loss is considered appropriate.

Examples of potential contingent liabilities are:

- legal action taken against SA Power Networks awaiting judgement;
- the cost of removing contaminants in certain circumstances;
- financial guarantees issued on behalf of third parties;
- termination benefits payable under directors’ or employees’ contracts;
- capital gains payable on disposal of property which has been revalued upwards;
- providing guarantees or rights of recourse which become enforceable on the occurrence of critical events (e.g. a party to a contractual arrangement defaults).

4.4 Materiality

Financial statements shall be prepared in accordance with AASB 108, ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

Materiality is when the omission of an item or items could individually or collectively influence the economic decision making of another individual based on the financial statements. The size and nature of the omission or misstatement is judged on the surrounding circumstances.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring that:

- the Chief Executive Officer is informed of all material known contingent assets and liabilities;
- the Board is informed of all material known contingent assets and liabilities; and
- this Statement of accounting practice is kept current.

5.2 Finance managers are responsible for ensuring that:

- the Chief Financial Officer is informed of all material known contingent assets and liabilities; and
- this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 137, ‘Provisions, Contingent Liabilities and Contingent Assets’

6.2 AASB 108, ‘Accounting Policies, Changes in Accounting Estimates and Errors’

4. Statement of Accounting Practice for the Classification of Expenditure

1. PURPOSE AND SCOPE

This Statement deals with the classification of expenditure between capital and operating, and the accounting treatment thereof. It does not address the issue of the ownership of capital works. For guidance with this decision, reference should be made to SA Power Networks 'Ownership of Capital Works Guidelines'.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks classifies expenditure between capital and operating in accordance with:

- Accounting Standard, AASB 116, 'Property, Plant and Equipment';
- Income Tax Assessment Act 1997.

2.2 The following criteria are to be applied when determining the correct classification of expenditure.

2.2.1 Capital expenditure

Capitalise expenditure where it is $500 or more, AND either:

- results in the creation of a new asset of a permanent nature; or
- extends the operating life; or
- increases the value; or
- increases/improves the operating capacity of an existing asset.

2.2.2 Operating expenditure

Expense of the period incurred in the course of SA Power Networks' business and not classified as capital expenditure.

3. DEFINITION OF TERMS

3.1 Capital expenditure

Expenditure incurred to acquire or create additional assets of a permanent nature or which increases the value, life or capacity of an existing asset, and the benefits arising therein are expected to extend over a period greater than twelve months from when the expenditure was incurred.

3.2 Operating expenditure

Expenditure of an operational nature incurred in carrying on the business, or for maintenance required to keep assets performing at their original capacity which may or may not be routinely incurred.

4. DISCUSSION

4.1 Importance of classification

The allocation of expenditure affects the amount of operating profit/loss of a period and the correctness of the Statement of financial position, which are an accurate representation of the financial affairs of SA Power Networks. Therefore, it is important that the criteria used to allocate costs are correctly and consistently applied, as this facilitates inter-period comparisons and avoids misinterpretation of financial information and performance.

4.2 Costs to be capitalised

SA Power Networks classifies expenditure in accordance with a number of references. However, costs which can be capitalised are determined by the requirements of AASB 116 for newly acquired assets and AASB 15 'Revenue from Contracts with Customers'.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 116, 'Property, Plant and Equipment'

6.2 AASB 15 'Revenue from Contracts with Customers'

6.3 Income Tax Assessment Act 1997

5. Guidelines for the Classification of Expenditure

1. PURPOSE AND SCOPE

These guidelines are designed to assist in the interpretation of the Statement of Accounting Practice for the Classification of expenditure by providing a general process for analysing all SA Power Networks' expenditure for classification into either capital or operating expenditure.

2. DEFINITION OF TERMS

2.1 Capital expenditure

Expenditure incurred to acquire or create an additional asset of a permanent nature or which increases the value, life or capacity of an existing asset, and the benefits arising therein are expected to extend over a period greater than twelve months from when the expenditure is incurred.

2.2 Operating expenditure

Expenditure of an operational nature incurred in carrying on the business or for maintenance required to keep assets performing at their original capacity, which may or may not be routinely incurred.

2.3 Maintenance

Expenditure on maintenance-type activities is operating expenditure, and, is all work done (and ancillary materials supplied) to service the assets and to maintain the condition and life of assets and the capacity of systems. It includes work and ancillary materials to repair or restore assets (but not replacement of assets).

2.4 Refurbishment

Expenditure on refurbishment is considered to be capital expenditure provided it meets the recognition criteria for capital expenditure (see above in 2.1). Costs incurred in the improvement or complete upgrade of an existing asset are considered to be capital expenditure.

2.5 Repairs

Expenditure on repairs is considered to be operating expenditure. Repairs are the restoration of a part of a structure or property by renewal of worn out parts, not being a total reconstruction of the entity. Repairs may arise as a result of normal wear and tear in operation and from attrition due to the passing of time, thereby making it appropriate to replace parts perceived to be inadequate.

3. GUIDELINES

3.1 Why classify expenditure?

Deciding whether expenditure is capital or operating is essential for the proper matching of revenue and expenditure for the determination of financial results in the Statement of profit or loss and other comprehensive income, the Statement of financial position and also for performance reporting (e.g. determining return on assets, both the return and the asset base are affected by this classification decision).

3.2 General accounting principles

3.2.1 Newly acquired or constructed assets

When SA Power Networks' acquires or constructs an asset, all of the following requirements must be met in order for the asset to be capitalised:

1. it has an economic life in excess of one year; and
2. it has a value of equal to or greater than $500; and
3. the expenditure must meet the definition of an asset as per AASB 116:
   (a) it is probable that the economic benefits associated with the item will flow to the entity; and
   (b) the cost of the asset can be reliably measured reliably.

Appendix 1 of this manual details this test in the form of a decision tree.

Expenditure which does not meet the above test is classified as operating expenditure and should be treated as an expense in the reporting period in which it is incurred.

3.2.2 Expenditure on existing SA Power Networks' assets

Expenditure in relation to an existing SA Power Networks' fixed asset should only be capitalised when the expenditure incurred:

- extends the asset's estimated useful life; <u>or</u>
- adds attributes that increase the asset's operating capacity; <u>or</u>
- increases the efficiency or economy of the asset.

An example of this would be where SA Power Networks' owns a heavy vehicle which is used for operational purposes and that vehicle requires a major rebuild to keep it operational and to extend the assets useful life.

Taxation requirements have been reviewed with regard to expenditure on existing assets, and it is appropriate that such expenditure be treated in the same manner for tax and accounting purposes. Refer to Section 3.3.2 below for details of the taxation treatment.

Appendix 2 of this manual details the tax and accounting treatment in the form of a decision tree.

Expenditure which does not meet the test detailed in Section 3.3.2 is operating expenditure and should be treated as an expense in the period in which it is incurred.

3.2.3 Expenditure on existing fixed assets which SA Power Networks does not own

SA Power Networks utilises a number of assets which it leases, predominantly buildings and fleet vehicles. (NB: Photocopiers and fax machines are considered a 'service cost' as they are based on a user-pays unit cost).

In these instances, the asset has not been capitalised in SA Power Networks' books. Previously recognised operating leases are no longer treated as such and is subject to a separate section under AASB 16 'Leases'.

3.2.4 Examples

For clarification, below are some general examples of capital and operating expenditure.

Example	***Classification***
Additions to an existing asset	CAPITAL
Repairs: • Which improve the capacity of the original asset • Which restore the asset to its original operating capacity	 CAPITAL OPERATING
Restoration	OPERATING
Maintenance	OPERATING
Refurbishment	CAPITAL
Spare Parts: • Maintenance spares (small, adhoc items) • If spare constitutes a material portion of the asset, enables it to operate as intended and meets the definition of an asset per AASB 116: ○ Spare parts which are used and not replaced ○ Spare parts which are used and replaced: • replacement spare (if meets asset definition) • used spare	 OPERATING CAPITAL OPERATING CAPITAL OPERATING

Further specific examples of capital and operating expenditure are contained in Appendix 3 of this Guideline.

3.3 General taxation principles

3.3.1 Newly acquired assets

From a practical perspective, there is generally no discernible difference between tax and accounting treatment of newly acquired assets. For taxation purposes, SA Power Networks should only capitalise the acquisition of a fixed asset, when the asset meets all of the following conditions:

- it has a value equal to or greater than $500; and
- the asset is considered a “unit of property” for taxation purposes. That is, it must be a physically or functionally independent unit; and
- it has a useful life in excess of one year.

3.3.2 Expenditure on existing SA Power Networks assets

For accounting purposes, expenses incurred in effecting repairs to assets used in SA Power Networks business operations are treated as operating expenditure. Similarly, for taxation purposes they are deductible in the year the expense is incurred.

Expenditure on repairs can be claimed as a deduction under Section 25-10 of the Income Tax Assessment Act 1997.

A deduction is not available where the costs are of a capital nature. For example, the replacement of or an improvement to an item of property used in carrying on a business could be considered to be capital and not a deductible repair.

‘To repair’ is therefore taken to mean to remedy or make good defects in an item and includes the renewal or replacement of parts in order to restore the efficient function of that item to its original specification. As a general rule, a repair would not change the character of the repaired item.

Where the work carried out goes beyond the restoration of original function of an item, the process may go beyond being a repair and instead be an improvement, which is capital in nature.

Therefore, for taxation purposes, expenditure in relation to an existing SA Power Networks fixed asset should be capitalised, when the expenditure incurred can be considered an improvement, that is:

- involves the replacement or renewal of an entirety (i.e. a physically or functionally independent unit of property, notwithstanding that it may be part of a larger item); or
- significantly increases the value of the asset; or
- significantly extends the effective life of the asset beyond that which it would have had were the asset maintained in reasonable order; or
- significantly increases the performance of the asset compared with the original specification; or
- the work carried out is intended to substantially or totally reduce the need for future repairs.

Whilst the above requirements are not dissimilar to accounting requirements, for taxation purposes, the following issues also must be considered:

1. Where worn parts are replaced with a modern equivalent, a replacement part which increases the efficiency of the item when compared with its original condition, as long as the purpose of the replacement is to restore and not significantly improve functional efficiency, the expense will be treated as a repair not a capital expense.

2. When an item which is not new is acquired and work is carried out soon after acquisition to remedy defects inherent in the item at the time of purchase, these works are referred to as “initial repairs” and are considered to be capital expenditure.

From a practical perspective, there is generally no discernible difference between tax and accounting treatment. An expense which meets the operating expense criteria in the accounting context will also be deductible for tax purposes. However, the primary difference relates to initial repairs, which are not recognised for accounting purposes. In the case of the initial repair, as indicated these are capital for tax purposes and it is considered appropriate that they be regarded in that manner for accounting purposes.

Where costs which are capitalised and then depreciated for accounting purposes would be deductible for tax purposes, the policy will be to treat those costs consistently for tax and accounting, at least initially in order to avoid differences between asset values between tax and accounting.

Appendix 2 of this manual details the tax and accounting treatment in the form of a decision tree.

To ensure the correct tax treatment, it is advisable to consult with the SAPN taxation team on the classification of expenditure, where the expenditure item is in excess of $100,000.

3.4 Costs to be capitalised

3.4.1 Newly acquired assets

In accordance with generally accepted accounting principles, Accounting Standards, SA Power Networks Statement of Accounting Practices and the Income Tax Assessment Act 1997, the costs to be capitalised when a fixed asset is acquired are, the purchase consideration plus costs incidental to acquisition (i.e. directly attributable to bring the asset to its working location and condition).

Purchase consideration is defined as the fair value of assets given, liabilities undertaken and/or other securities given by the acquiring entity, in exchange for assets or shares of another entity.

Costs incidental or ‘costs directly attributable’ to bringing the asset into a working condition ready for its intended use can be capitalised e.g. site preparation costs, initial delivery fee, freight and handling costs or installation costs including the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. These also include:

- Government charges;
- Import duties;
- Non-refundable purchase taxes;
- Legal fees;
- Stamp duty;

- Feasibility studies;
- Environmental impact studies;
- Consultants' fees (e.g. surveyors, architects, geologists, computer programmers);
- Delivery and handling;
- Installation and assembly.

3.4.2 *Constructed assets*

In accordance with AASB 15 'Revenue from Contracts with Customers', the costs to be capitalised when a fixed asset is constructed are:

- Direct labour (including any associated overheads);
- Direct materials (including any associated overheads);
- Costs related to the use of plant and equipment including moving to / from contract site;
- Warranty costs;
- General construction costs, including:
  - insurance
  - design and technical costs
  - project overheads
  - interest expense (in certain circumstances, refer AASB 123, 'Borrowing Costs')

3.5 Specific SA Power Networks capitalisation accounting practices

The following items are each subject to a specific SA Power Networks accounting practice as to capitalisation of costs incurred. Some of the practices are directly governed by external accounting requirements, others are SA Power Networks imposed, but they all should be complied with.

3.5.1 *Threshold for the capitalisation of expenditure*

The current capitalisation threshold for newly acquired or created fixed assets is $500 for all classes of fixed assets in SA Power Networks.

3.5.2 *Wages and salaries (including overheads)*

Where wage and salary costs are directly incurred on a specific capital job they are included in the cost of the job.

3.6 Implications for the financial asset register

If expenditure is deemed to be capital expenditure, the SAPN financial asset register must be updated to reflect the addition of a new asset or change in value of an existing SA Power Networks asset.

3.6.1 *Newly acquired or constructed assets*

The addition of a new asset is to be updated in the financial asset register as follows:

If the asset is valued at $500 or more, it is to be recorded as an individual asset in the financial asset register.

3.6.2 Expenditure on existing assets

Where there has been capital expenditure on an existing SA Power Networks asset, the existing asset's record in the financial asset register must be updated to ensure the asset's carrying value, depreciable life and consequently depreciation are correct.

If the asset is a distribution network asset, then additions to that asset are generally capitalised to a sub asset. These sub assets use the same asset number as the original asset but utilise a sub number field in SAP to identify separately each financial year's additions. The sub numbers are created semi-annually for all existing network assets by the Asset Accounting Officer.

The cost of a major inspection or overhaul of an asset is recognised in the carrying amount of an asset if it satisfies the recognition criteria (e.g. extends the operating life or increases the asset value or increases/improves the operating capacity of an existing asset).

3.7 Impairment of Assets

Indicators in the impairment of assets will be reviewed at reporting dates to ensure that any impairment is identified.

If there are any indicators of impairment, SA Power Networks will undertake an assessment of the written down value of its assets in the Statement of financial position, to ensure that it does not exceed its fair value (recoverable amount). If the fair value of the assets is lower than the value in the Statement of financial position, this value will be reduced to the fair value.

4. REFERENCES

4.1 AASB 116, 'Property, Plant and Equipment'

4.2 AASB 16 'Leases'

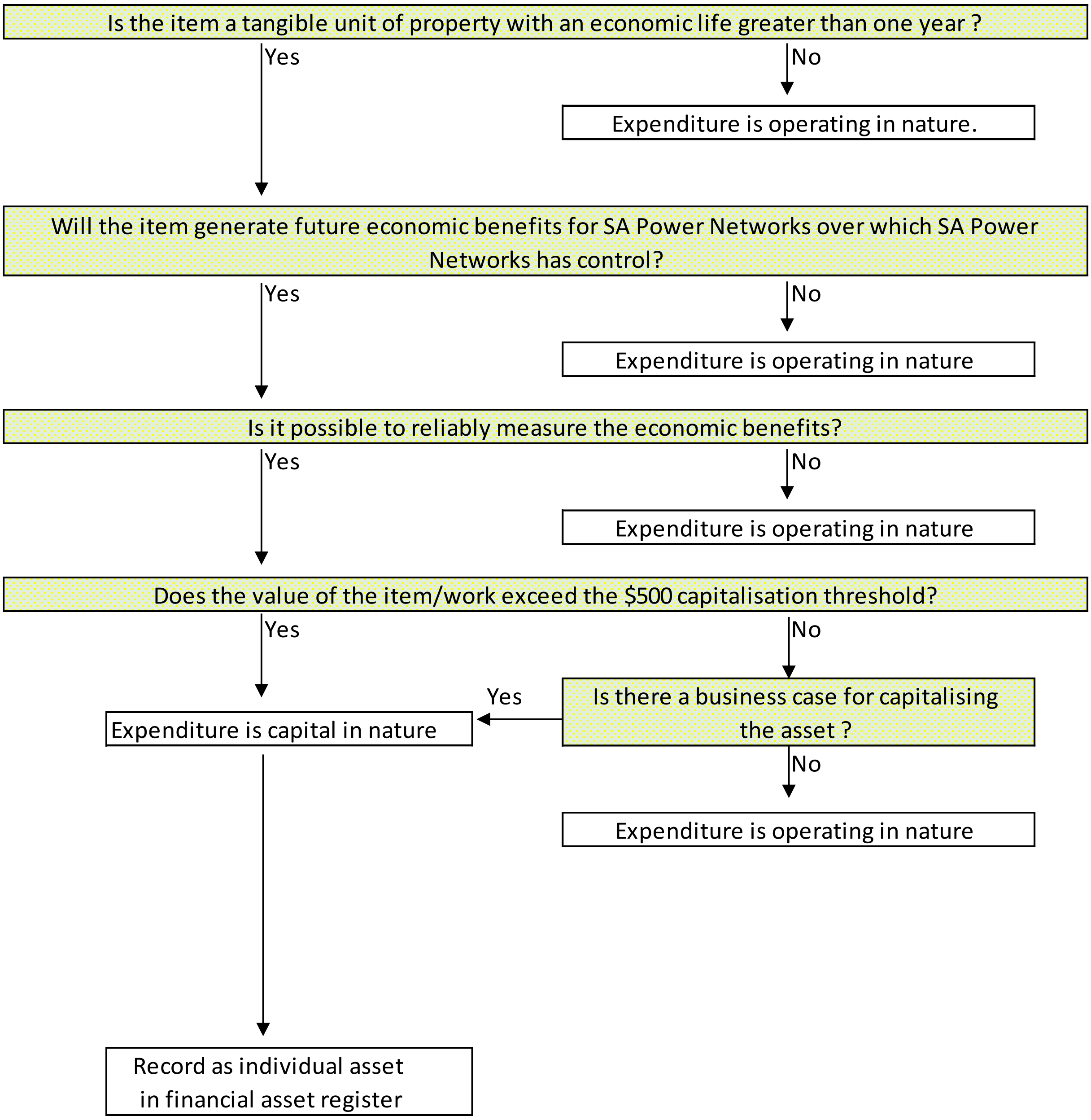
4.3 AASB 15 'Revenue from Contracts with Customers'

4.4 SA Power Networks' Statement of Accounting Practice Section 5. Classification of expenditure

4.5 Income Tax Assessment Act 1997

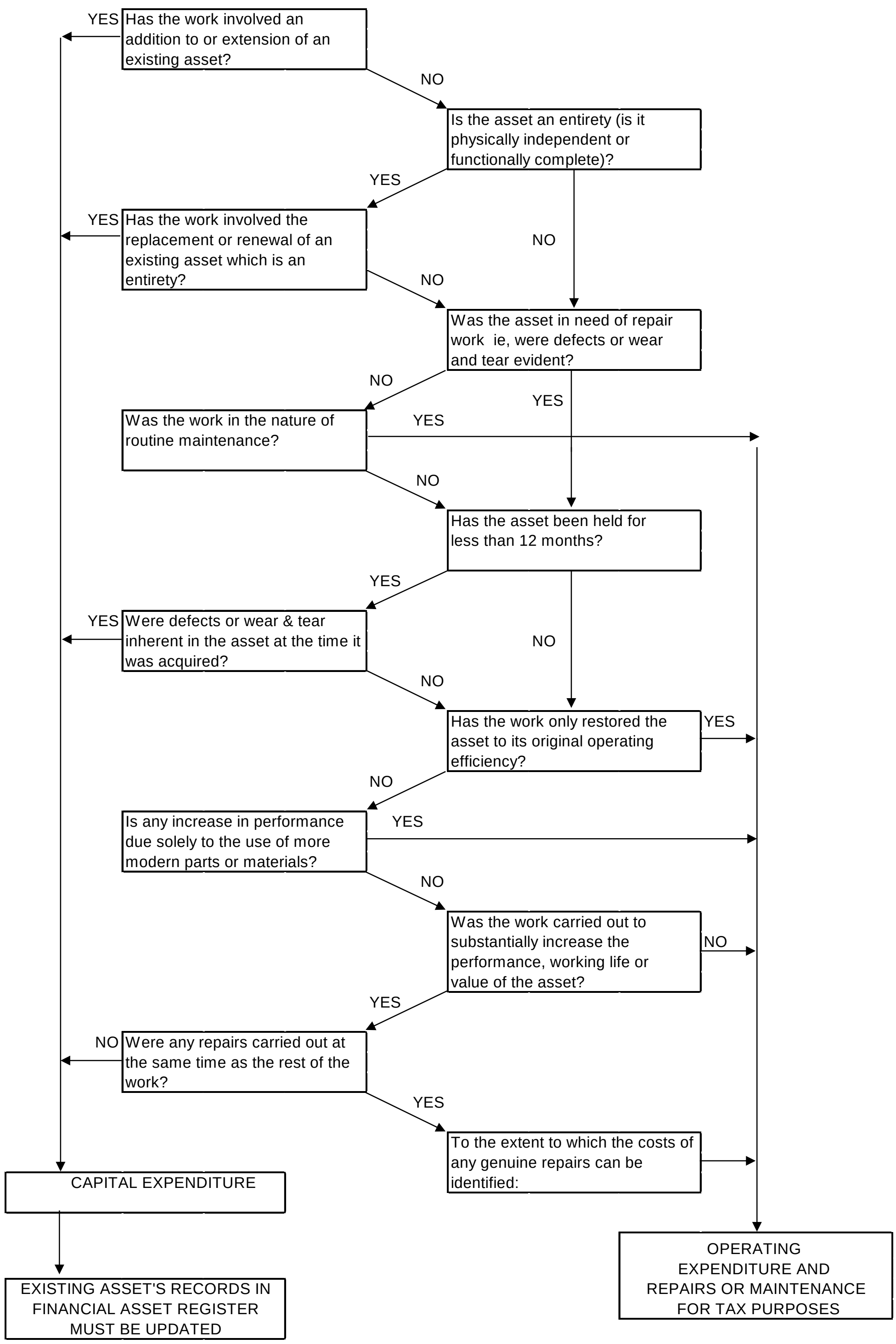
APPENDIX 1

DECISION TREE : Recognition of a new fixed asset
(constructed or purchased)



APPENDIX 2

DECISION TREE
Expenditure on an existing asset



APPENDIX 3
SPECIFIC EXAMPLES OF CAPITAL AND OPERATING EXPENDITURE

TYPE OF JOB/WORK	CAPITAL / OPERATING	NOTES
PUBLIC LIGHTING		
MAINTENANCE	OPERATING	
RELOCATION OF A PUBLIC LIGHTING COLUMN	OPERATING	
COUNCIL BULK UPGRADE	CAPITAL	Must be an upgrade, whereby the wattage of the street lighting is increased and/or the efficiency of the street lighting is improved (for example the program to change fluorescent globes to mercury globes).
COUNCIL STREET UPGRADE	CAPITAL	Must be an upgrade, whereby the wattage of the street lighting is increased and/or the efficiency of the street lighting is improved (for example the program to change fluorescent globes to mercury globes).
INSTALLATION OF NEW STREET LIGHTING WHERE NO STREET LIGHTING PREVIOUSLY EXISTED	CAPITAL	
URD and UID (developer initiated work)		
URD DESIGN	CAPITAL	All actual work carried out on URD/UID projects is to be charged to capital expenditure.
UID DESIGN	CAPITAL	All actual work carried out on URD/UID projects is to be charged to capital expenditure.
URD WORK	CAPITAL	All actual work carried out on URD/UID projects is to be charged to capital expenditure.
UID WORK	CAPITAL	All actual work carried out on URD/UID projects is to be charged to capital expenditure.
URD CONNECTION	CAPITAL	All actual work carried out on URD/UID projects is to be charged to capital expenditure.
UID CONNECTION	CAPITAL	All actual work carried out on URD/UID projects is to be charged to capital expenditure.
GIFTED ASSETS	REFER NOTES	When the URD/UID asset is gifted to SA Power Networks, the value of the rebate will be recognised for accounting purposes as a fixed asset and appear in the statement of financial position as such.
UNDERGROUND SUPPLY (non-developer initiated undergrounding work)		
NEW SERVICE - 110A SERVICE PIT	CAPITAL	
NEW SERVICE - 200A SERVICE PIT	CAPITAL	
NEW SERVICE - >200A LOW VOLTAGE ENCLOSURE	CAPITAL	
NEW SERVICE - >200A PAD TRANSFORMER	CAPITAL	
UPGRADE 110A SERVICE PIT	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
UPGRADE >200A LOW VOLTAGE ENCLOSURE	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
UPGRADE 200A SERVICE PIT	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
UPGRADE >200A PAD TRANSFORMER	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
SYSTEM MAINTENANCE	OPERATING	
SYSTEM UPGRADE	CAPITAL	Must be an upgrade to increase voltage or increase load capacity, e.g. change cable size due to load/low voltage complaints.
SYSTEM CHANGE	OPERATING	No increase in voltage or load capacity occurs, e.g. relocation of mains.

TYPE OF JOB/WORK	CAPITAL / OPERATING	NOTES
CUSTOMER FUNDED PROJECTS		
CUSTOMER WORK	OPERATING	All work carried out for the customer on his/her property is to be charged to operating expenditure.
AUGMENTATION WORK	CAPITAL	All SA Power Networks augmentation work associated with a customer funded project is to be charged to capital expenditure.
CONTRIBUTED ASSETS	REFER NOTES	When the customer funded project is vested to SA Power Networks, it will be recognised for accounting purposes as a fixed asset and appear in the statement of financial position as such, at an estimated capitalised value (as determined by SA Power Networks).
SUBSTATIONS		
CONSTRUCTION OF A NEW SUBSTATION	CAPITAL	
CONSTRUCT NEW FEEDER AS PART OF NEW SUBSTATION ESTABLISHMENT	CAPITAL	
DESIGN AND CONSTRUCTION OF ALTERATIONS TO A SUBSTATION FOR A NEW LINE EXIT	CAPITAL	
REINFORCEMENT / UPGRADE OF SUBSTATION	CAPITAL	Reinforcement to meet increased load requirements e.g. replacement of transformers and associated indoor circuit breakers with transformers and switchgear of a higher rating.
PREVENTATIVE MAINTENANCE	OPERATING	
DEFECTIVE MAINTENANCE	OPERATING	
CORRECTIVE MAINTENANCE	CAPITAL	The word maintenance is probably as misnomer in this instance. Corrective maintenance is usually a large program, whereby a problem with all substations for example right across the State is corrected.
OVERHEAD SUPPLY		
NEW SERVICE - 100A DOMESTIC	CAPITAL	
NEW SERVICE - SWER	CAPITAL	
NEW SERVICE - 200A COMMERCIAL / INDUSTRIAL	CAPITAL	
NEW SERVICE - 11KV SUPPLY	CAPITAL	
UPGRADE 100A DOMESTIC	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
UPGRADE 200A COMMERCIAL / INDUSTRIAL	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
UPGRADE SWER	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
UPGRADE 11KV SUPPLY	CAPITAL	Must be an upgrade to increase voltage or increase load capacity.
POLE PLATING - SUB-TRANSMISSION LINES	CAPITAL OPERATING	If a **significant** number of poles on a sub-transmission line are plated at the same time. If **only one pole or several poles** on a sub-transmission line are plated.
POLE PLATING - DISTRIBUTION LINES	CAPITAL OPERATING	If a **significant** number of poles on a feeder are plated at the same time. If **only one pole or several poles** on a feeder are plated.
POLE REPLACEMENT - SUB-TRANSMISSION LINES	CAPITAL OPERATING	If a **significant** number of poles on a sub-transmission line are replaced at the same time. If only **one pole or several poles** on a sub-transmission line are replaced.

TYPE OF JOB/WORK	CAPITAL / OPERATING	NOTES
POLE REPLACEMENT - DISTRIBUTION LINES	CAPITAL OPERATING	If a **significant** number of poles on a feeder are replaced at the same time. If only **one pole or several poles** on a feeder are replaced.
FITTING REPLACEMENT	OPERATING	Assumes replacing like with like. However, if the fitting replacement results in an uprating or upgrading of supply i.e. a load increase, then the costs of the fitting replacement should be capitalised.
RECLOSER REBUILDS	CAPITAL	
RECLOSER MAINTENANCE	OPERATING	
SYSTEM MAINTENANCE	OPERATING	If the system maintenance involves Pole Replacement and/or Conductor Replacement, refer appropriate category.
CONDUCTOR REPLACEMENT	OPERATING	Assumes replacing like with like. However, if the replacement conductor results in an uprating or upgrading of supply, i.e. a load increase, then the costs of the conductor replacement should be capitalised.
SYSTEM UPGRADE	CAPITAL	Must be an upgrade to increase voltage or increase load capacity, e.g. change conductor size due to load / low voltage complaints.
SYSTEM CHANGE	OPERATING	No increase in voltage or load capacity occurs, e.g. relocation of mains.
CHANGING EXISTING MAINS		
PLEC (POWER LINE ENVIRONMENTAL COMMITTEE PROJECTS)	CAPITAL	The undergrounding of existing overhead mains is capitalised as it is considered to be equivalent to refurbishment of the mains.
RELOCATION OF POLE / MAINS	OPERATING	Assumes no uprating / upgrading of supply occurs at the same time. Carried out to improve the efficiency of maintenance type activities e.g. to improve access for tree trimming or to avoid tree cutting, or sometimes due to road widening.
UNDERGROUNDING OF EXISTING OVERHEAD MAINS	CAPITAL	The undergrounding of existing overhead mains is capitalised as it is considered to be equivalent to refurbishment of the mains.
CHANGING EXISTING SERVICES		
OVER UNDER TO SERVICE PIT	OPERATING	Assumes no uprating / upgrading of supply occurs at the same time.
SINGLE PHASE TO THREE PHASE	CAPITAL	
LOW VOLTAGE TO 11KV	CAPITAL	
RELOCATION OF SERVICE POINT	OPERATING	Assumes no uprating / upgrading of supply occurs at the same time.
OTHER		
TREE CUTTING	OPERATING	
SUPPLY RESTORATION	OPERATING	
PROPERTY RELATED EXAMPLES		
REMOVAL OF DISTRIBUTION LINES TO ENABLE A SALE OF A PROPERTY	OPERATING	
BITUMINISE NEW ROAD ON AN EXISTING PROPERTY WHERE THERE WAS PREVIOUSLY NO ROAD > $500	CAPITAL	
NEW ROOF ON AN EXISTING BUILDING > $500	CAPITAL	
RE-BITUMINISE AN EXISTING BITUMINISED ROAD: • REPAIRS	OPERATING	

TYPE OF JOB/WORK	CAPITAL / OPERATING	NOTES
• RE-BUILD ROAD FROM SCRATCH	CAPITAL	
UPGRADE OF AN EASEMENT I.E. BITUMINISE THE EASEMENT	CAPITAL	
WATER METERS - NEW SERVICE > $500	CAPITAL	
BROKERAGE FOR PURCHASES OF PROPERTY	CAPITAL	
TELECOMMUNICATIONS COSTS ASSOCIATED WITH A NEW BUILDING	CAPITAL	
ESTABLISH TELECOMMUNICATIONS SERVICES ASSOCIATED WITH A FITOUT TO AN EXISTING BUILDING > $500	CAPITAL	
COSTS ASSOCIATED WITH DISPOSAL OF A PROPERTY I.E. • RELOCATION COSTS • SURVEYING • ASBESTOS REMOVAL • PAINTING	 OPERATING OPERATING OPERATING OPERATING	
WASH DOWN MATS: • STATUTORY REQUIREMENT UPGRADE > $500 • MAINTENANCE • NEW	 CAPITAL OPERATING CAPITAL	
SURVEYING COSTS ASSOCIATED WITH A SUBDIVISION OF AN EXISTING BUILDING	CAPITAL	
SURVEYING COSTS FOR A NEW BUILDING	CAPITAL	
COSTS ASSOCIATED WITH RELOCATION: • PERSONNEL • EQUIPMENT	 OPERATING OPERATING	
NEW AIR CONDITIONING: • NEW BUILDING • REPLACE PART OF AIRCONDITIONING > $500	 CAPITAL CAPITAL	
ASBESTOS REMOVAL FOR: • A NEWLY PURCHASED PROPERTY • AN EXISTING BUILDING COST > $500	 CAPITAL CAPITAL	If asbestos removal part of a capital project then capitalise within the capital project if part of an operating expenditure, then operating.
REFIT OF AN EMPTY BUILDING TO ENCOURAGE OCCUPANCY > $500	CAPITAL	
NEW AIR CONDITIONING: • NEW BUILDING • REPLACE PART OF AIRCONDITIONING > $500	 CAPITAL CAPITAL	

TYPE OF JOB/WORK	CAPITAL / OPERATING	NOTES
ASBESTOS REMOVAL FOR: • A NEWLY PURCHASED PROPERTY • AN EXISTING BUILDING COST > $500	CAPITAL CAPITAL	If asbestos removal part of a capital project then capitalise within the capital project if part of an operating expenditure, then operating.
REFIT OF AN EMPTY BUILDING TO ENCOURAGE OCCUPANCY > $500	CAPITAL	
REFIT OF AN EXISTING PROPERTY > $500	CAPITAL	
REFIT OF A NEWLY PURCHASED PROPERTY > $500	CAPITAL	
TRAVEL AND ACCOMMODATION E.G. TRAVEL TO PORT LINCOLN TO SUPERVISE BUILDING WORK, IF BUILDING WORK IS DEEMED CAPITAL	CAPITAL	
PAINTING OF: • AN EXISTING BUILDING • NEW BUILDING (AS PART OF THE INITIAL CONSTRUCTION)	OPERATING CAPITAL	
LANDLORD MAINTENANCE, E.G. PLUMBING, ELECTRICAL, AIR CONDITIONING, OTHER: • REPAIRS/MAINTENANCE AND/OR REPLACEMENT • UPGRADE > $500	OPERATING CAPITAL	
LANDLORD MAINTENANCE, E.G. PLUMBING, ELECTRICAL, AIR CONDITIONING, OTHER: • REPAIRS/MAINTENANCE AND/OR REPLACEMENT • UPGRADE > $500	OPERATING CAPITAL	
LANDSCAPING COSTS > $500 • NEW BUILDING • EXISTING BUILDING	CAPITAL CAPITAL	
ESTABLISH CAR PARK ON OWNED LAND	CAPITAL	
NEW OR UPGRADE LIGHTING OF CAR PARK AND SURROUNDS ON OWNED LAND	CAPITAL	
SECURITY: • INSTALLATION FOR NEW CAPITAL PROJECT • REPAIR	CAPITAL OPERATING	
RELOCATE ATCO HUT > $500	OPERATING	
RELOCATE ATCO HUT AS PART OF A LARGER CAPITAL PROJECT	CAPITAL	
FENCING COSTS • NEW/REPLACE ENTIRE FENCE • REPAIR/MAINTENANCE	CAPITAL OPERATING	
SIGNAGE > $500		

TYPE OF JOB/WORK	CAPITAL / OPERATING	NOTES
• NEW BUILDING • EXISTING BUILDING	CAPITAL CAPITAL	
EXAMPLES OF ASSETS UNDER AN OPERATING LEASE		
IMPROVEMENTS TO A BUILDING LEASED BY SA POWER NETWORKS VALUED AT LESS THAN $500.	OPERATING	
IMPROVEMENTS TO A BUILDING LEASED BY SA POWER NETWORKS VALUED AT $500 OR MORE.	CAPITAL	Capital, but leasehold improvements are depreciated over the remaining life of the lease, or the useful life of the asset, whichever is the shortest.
IT EQUIPMENT EXAMPLES		
PERSONAL COMPUTERS WHOSE TOTAL VALUE (I.E. SCREEN, KEYBOARD AND CENTRAL PROCESSING UNIT) IS $500 OR GREATER, REGARDLESS OF THE VALUES OF THE INDIVIDUAL COMPONENTS.	CAPITAL	
PERSONAL COMPUTERS WHOSE TOTAL VALUE (I.E. SCREEN, KEYBOARD AND CENTRAL PROCESSING UNIT) IS LESS THAN $500.	OPERATING	
ADDITIONS OR ACCESSORIES VALUED AT LESS THAN $500 WHICH HAVE BEEN ADDED TO A PERSONAL COMPUTER WHICH HAS BEEN CAPITALISED, E.G., MEMORY UPGRADES.	OPERATING	
ADDITIONS OR ACCESSORIES VALUED AT GREATER THAN $500 WHICH HAVE BEEN ADDED TO A PERSONAL COMPUTER WHICH HAS BEEN CAPITALISED, E.G., MEMORY UPGRADES.	CAPITAL	

6. Guidelines for the Ownership of Capital Works

This can be found in Knowledge Central.

7. Statement of Accounting Practice for the Valuation of Easements

1. PURPOSE AND SCOPE

This Statement of accounting practice sets out the accounting treatment and the method of valuing easements. The Statement only applies to those easements owned by SA Power Networks.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks accounts for and values easements in accordance with:

- AASB 116, 'Property, Plant and Equipment'.

3. DEFINITION OF TERMS

3.1 Easement

The right of way or similar right over another's ground or property.

4. DISCUSSION

4.1 Introduction

SA Power Networks holds an easement over land to give uninterrupted right of access to its equipment, a right to have structures on the property, and a right to distribute power.

4.2 Valuation of the easement

An easement held over land meets the definition of an asset in that it confers control of future economic benefits related to right of entry.

SA Power Networks accounts for easements as non-depreciable fixed assets, capitalised at their cost of acquisition, where ownership of the asset resides with SA Power Networks. Where an asset is acquired in the name of the Distribution Lessor Corporation (DLC), the acquisition will be treated as an operating expense (Refer to Ownership of Capital Works on Knowledge Library).

The acquisition cost for easements generally comprises the following three elements:

- compensation paid to the land owner;
- registration costs;
- preparation costs, including survey, conveyancing and other associated costs.

4.3 Types of easement

SA Power Networks holds a number of different types of easements, and the cost (and components of the cost) to acquire the right of access associated with a particular easement varies with its type and location.

The types of easement held by SA Power Networks are detailed below:

Registered Easement - Real Property Act 1886

Under a registered easement SA Power Networks gains registered title to the easement. The cost of the easement to SA Power Networks includes compensation paid to the land owner for severance, injurious affection and disturbance (except in instances where the land owner receives direct benefit from the installation) and also the surveying and conveyancing costs.

Crown Registered Easements - Crown Lands Management Act 2009

Under a Crown registered easement SA Power Networks gains a registered title to the easement. The cost of the easement to SA Power Networks includes compensation paid to the land owner for severance, injurious affection and disturbance (except in instances where the land owner receives direct benefit from the installation) and also the surveying and conveyancing costs.

Road Closing - Roads (Opening and Closing) Act 1991

Under the Real Property Act, SA Power Networks does not need an easement for power lines located on public streets. However, if a local government authority, or other body wishes to close a public road upon which SA Power Networks has a power line, SA Power Networks may claim an easement as a pre-condition to granting its consent to the road closing. There is no cost to SA Power Networks for this easement.

Vested Easements - Real Property Act 1886

A vested easement is created when plans for a new division are lodged by SA Power Networks to locate equipment such as transformers and cables. SA Power Networks does not receive a Certificate of Title and the easement is only recorded on the Plan of Division and the land owner's Title. No cost is borne by SA Power Networks in gaining a vested easement, as the right of access is given to SA Power Networks by the developer as part of the development process.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 Real Property Act 1886

6.2 Crown Lands Management Act 2009

6.3 Roads (Opening and Closing) Act 1991

6.4 AASB 116, 'Property, Plant and Equipment'

8. Statement of Accounting Practice for Capital Work-In-Progress

1. PURPOSE AND SCOPE

To determine the value of SA Power Networks' capital work in progress at the end of an accounting period.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 All capital works outstanding at the end of an accounting period are to be reported under fixed assets in the Statement of financial position as 'work in progress', and not depreciated.

3. DEFINITION OF TERMS

3.1 Work in progress

Work in progress, for the purposes of this statement, refers to capital works physically incomplete or not commissioned at the end of an accounting period.

4. DISCUSSION

4.1 The initial decision which needs to be made is whether this is capital or operating expenditure. For guidance with this decision, reference should be made to SA Power Networks' Statement of accounting practice and guidelines for the classification of expenditure.

4.2 It then needs to be determined who is the owner of the capital works. For guidance with this decision, reference should be made to SA Power Networks' 'ownership of capital works' guidelines. However, it should be noted that SA Power Networks owns all capital works in progress until assessed.

4.3 Capital works are to be included in the Statement of financial position as depreciable fixed assets in the accounting period they are physically completed.

4.4 Capital works incomplete at the end of an accounting period are to be treated as work in progress and reported as a category of fixed assets in the Statement of financial position, and not depreciated.

4.5 To effectively identify work in progress requires that all capital works must be monitored by managers responsible for the works. In the case of:

- Network projects; the relevant project manager is responsible for closing out their respective capital projects.
- For all other non-network projects; the asset accounting officer is responsible for coordinating monthly work-in-progress reviews by distributing work-in-progress reports to the relevant cost centre managers.

4.6 Differences in physical and financial completion are a result of there being costs that are incurred after an asset is commissioned, such as landscaping, which are a financial cost of the asset, however, the asset is physically complete, commissioned or ready for service, and should be in the financial asset register to be depreciated, and not work in progress in that accounting period.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with by:

- monitoring the progress of all capital works;
- ensuring that at the end of an accounting period, capital works in progress are reported as a fixed asset and not depreciated.

6. REFERENCES

6.1 SA Power Networks' Statement of Accounting Practice, Section 5. 'Classification of expenditure'

6.2 SA Power Networks' Statement of Accounting Practice, Section 9. 'Depreciation of fixed assets'

6.3 SA Power Networks' Statement of Accounting Practice, Section 6. 'Ownership of capital works'

6.4 AASB 116 'Property, Plant and Equipment'

6.5 AASB 15 'Revenue from Contracts with Customers'

9. Statement of Accounting Practice for the Depreciation of Fixed Assets

1. PURPOSE AND SCOPE

This Statement of accounting practice sets out SA Power Networks' accounting treatment for the depreciation of fixed assets. The statement applies to all SA Power Networks' fixed assets.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks depreciates its fixed assets in accordance with:

- AASB 116, 'Property, Plant and Equipment'
- Income Tax Assessment Act 1997

2.2 The net cost or revalued amount of each item of property, plant or equipment is depreciated on a straight-line basis over its expected useful life commencing from the time the asset is commissioned (i.e. available for use).

2.3 Depreciation rates for the classes of assets are reviewed annually, and, if necessary, adjusted so that they will reflect the most recent assessments of useful life and residual value. Where asset lives are revised, the written down value of the asset is depreciated over the revised remaining life.

3. DEFINITION OF TERMS

3.1 Definitions of terms relevant to the depreciation of fixed assets are contained in AASB 116, 'Property, Plant and Equipment'.

3.2 Non-depreciable fixed assets

For the purposes of accounting for depreciation, non-depreciable assets include land, easements, and, assets under construction but not yet commissioned.

4. DISCUSSION

4.1 SA Power Networks reports and accounts for the depreciation of fixed assets in accordance with AASB 116.

AASB 116 addresses the following topics and it should be referred to directly for accounting and reporting requirements in relation to:

- Recognition of assets with a physical substance (i.e. not intangible assets)
- Recognition of the depreciable amount
    - Revaluation of depreciable assets
    - Residual values
    - Subsequent costs

- Monitoring depreciation rates and methods
    - Regular review of depreciation rates and methods
    - Changes to depreciation rates and methods
- Spares for plant and equipment
- Buildings
- Leasehold improvements
- Retirement or disposal of depreciable assets
- Disclosures relating to depreciation
- Definitions
- Comparative information

4.2 The expected useful lives of SA Power Networks' major assets are as follows:

Sub-transmission and distribution system	20 - 70 years
Buildings	10 - 40 years
Vehicles	3 - 15 years
Plant, tools, office and IT equipment	3 - 10 years

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 116, 'Property, Plant and Equipment'.

6.2 Income Tax Assessment Act 1997

10. Statement of Accounting Practice for Retirement or Disposal of Fixed Assets

1. PURPOSE AND SCOPE

This Statement sets out the accounting treatment for the retirement or disposal of SA Power Networks' fixed assets due to obsolescence or considered surplus to requirements.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks accounts for the retirement and disposal of fixed assets in accordance with:

- AASB 116, 'Property, Plant and Equipment'

2.2 Assets are retired from the financial asset register when they no longer contribute, or are unlikely in the future to contribute, to SA Power Networks' revenue earning capacity (i.e. do not generate a future economic benefit).

2.3 Individual assets are written off when they are disposed of.

2.4 Group assets are written off when they are fully depreciated.

2.5 Any profit or loss on the sale or disposal of fixed assets shall be recognised in the Statement of profit or loss and other comprehensive income.

3. DEFINITION OF TERMS

3.1 Individual assets

An individual asset, for the purposes of this Statement, is an asset which has been recorded at the individual asset level within the financial asset register.

3.2 Group assets

Group assets are minor items with an initial cost greater than $500, which cannot be specifically identified so are grouped together for recording purposes.

Examples are collections or sets of tools where individual pieces are valued at less than $500 but as a set they are over $500. Additionally, these sets are usually not used or worthwhile as individual pieces and so are logically grouped as an asset.

3.3 Retirement

The permanent removal from service of a fixed asset by means including sale, dismantling and/or abandonment. Retirement does not include assets taken out of service and held in reserve for actual or potential future use.

4. DISCUSSION

4.1 Retired assets

An asset is deemed to be retired from service when it no longer contributes or is unlikely to contribute to the realization of future economic benefits by SA Power Networks, due to:

- technical obsolescence;
- commercial obsolescence;
- physically deteriorated or uncommercial to run or repair; or
- surplus to requirements.

4.2 The disposal of fixed assets

The disposal of fixed assets will generally be undertaken by the business unit or department which is undertaking the asset disposal.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 116, 'Property, Plant and Equipment'.

11. Statement of Accounting Practice for Intangible Assets

1. PURPOSE AND SCOPE

This Statement of accounting practice sets out the accounting treatment for SA Power Networks' intangible assets.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks accounts for its intangible assets in accordance with:

- AASB 138, 'Intangible Assets'

2.2 SA Power Networks values its intangibles initially at cost less any accumulated amortisation and any accumulated impairment losses.

2.3 An intangible asset shall be recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to SA Power Networks, and the cost of the asset can be measured reliably.

2.4 Intangible assets can arise from the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks. Common examples of items encompassed by these broad headings are computer software, patents, copyrights, customer lists, customer or supplier relationships, customer loyalty, market share and marketing rights.

Often it is difficult to determine at which point a project moves from the research phase (when costs are expensed) to the development phase (when costs can be capitalised). There are a number of criteria SA Power Networks must be able to demonstrate before recognising an internally generated intangible asset.

An intangible asset arising from development shall only be recognised if SA Power Networks can demonstrate **all** of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

2.5 Any expenditure on research activities are to be expensed and not capitalised.

2.6 Expenditure on development projects shall be recognised as an intangible asset only if SA Power Networks can demonstrate that the intangible asset will be available for use or sale upon completion, and that it will generate probable future economic benefits.

3. DEFINITION OF TERMS

3.1 Definitions of terms relevant to accounting for intangibles are contained in AASB 138.

3.2 Intangible asset

An identifiable non-monetary asset without physical substance.

3.3 Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

3.4 Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

3.5 Research phase

Research includes activities aimed at gaining new scientific or technical knowledge and understanding, evaluating alternatives and making selection decisions.

3.5 Development phase

The development stage includes activities that relate to design, construction and testing prior to the asset being available for use.

4. DISCUSSION

4.1 SA Power Networks measures, accounts and reports its intangible assets in accordance with AASB 138.

4.2 SA Power Networks values its intangibles initially at cost less any accumulated amortisation and any accumulated impairment losses.

4.3 Expenditure on an intangible item shall be recognised as an expense when it is incurred unless it forms part of the cost base of the intangible asset or the item is acquired in a business combination and cannot be recognised as an intangible asset.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 138, 'Intangible Assets'

6.2 AASB 136, 'Impairment of Assets'

12. Statement of Accounting Practice for Software-as-a-Service (SaaS)

1. PURPOSE AND SCOPE

This Statement of accounting practice sets out the accounting treatment for SA Power Networks' expenditure incurred in connection with the implementation of a SaaS solution or the utilisation of SaaS.

2. STATEMENT OF ACCOUNTING PRACTICE

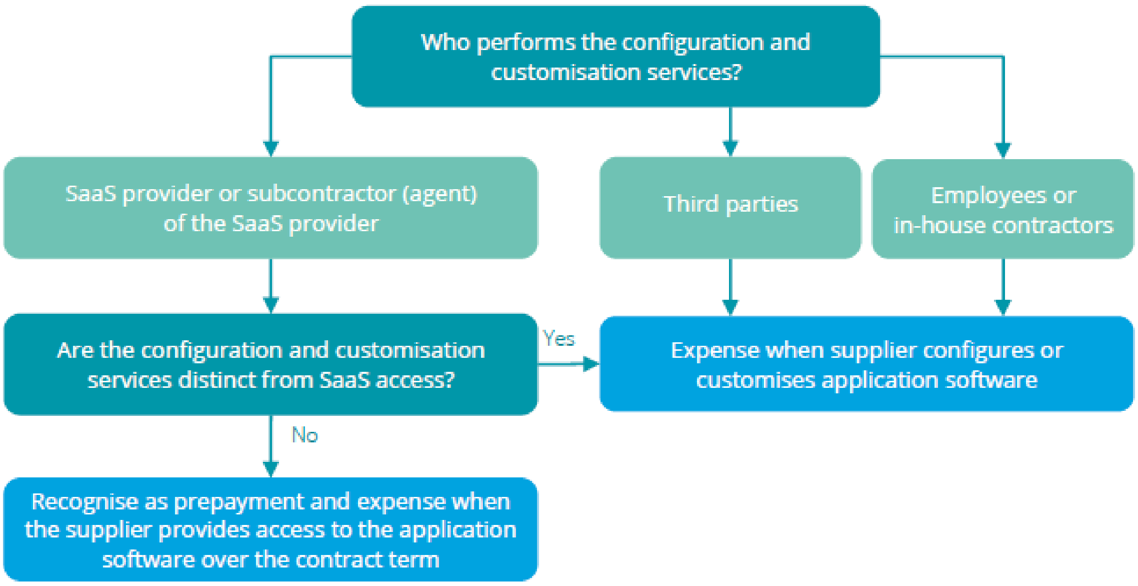
2.1 SA Power Networks accounts for Software-as-a-Service (SaaS) expenditure based on the reason and nature of the expenditure incurred.

2.2 If expenditure is incurred which results in the implementation of a SaaS solution for SA Power Networks (such as the Success Factors payroll management system), then the following table illustrates some examples (not all-inclusive) of typical costs incurred in SaaS arrangements and the recommended accounting treatment of each.

	Activities	Capex	Opex	Comments
Preliminary Project Stage	Selection of a provider		✓	Unless a cost can be directly attributable to Capex
Preliminary Project Stage	Development of business case and project plan		✓	Unless a cost can be directly attributable to Capex
Installation and Implementation	Installation and set-up of purchased or leased infrastructure (e.g. servers)	✓		Property, plant and equipment or lease
Installation and Implementation	Software licencing		✓	Expense over the period purchased
Installation and Implementation	Configuration and set up of provider offerings and customisation of provider application software		✓	Refer 2.3 below for further guidance on recommended treatment of these costs depending on who performs the configuration and customisation services
Installation and Implementation	Development of bridging modules (or APIs) to existing on-premise systems or bespoke additional capability	✓		Where customer controls the IP over any code written for the modification of existing or development of new on-premise software

	Activities	Capex	Opex	Comments
Data Conversion	Including purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system		✓	
	Purchased data conversion software	✓		Although if only used for a single project, the useful life may be relatively short
Post Implementation	Deployment		✓	Unless a cost can be directly attributable to Capex
	Communications		✓	
	Employee training costs		✓	
	Purchase of training materials, e-learnings and user manuals	✓		
	Development of training materials, e-learnings and user manuals	✓		
	Testing and ongoing maintenance activities		✓	Unless a cost can be directly attributable to Capex
	Ongoing access to SaaS		✓	

2.3 In relation to configuration and customisation costs, the following provides an overview of the recommended treatment depending on who performs the configuration and customisation services.



2.4 If utilising a standard SaaS product in connection with a broader capital project, i.e. one that does not result in the implementation of a SaaS solution for SA Power Networks, then the expenditure incurred can be capitalised as any other cost input in connection with a capital project.

3. DEFINITION OF TERMS

3.1 Software-as-a-Service (SaaS)

SaaS is a cloud computing arrangement in which the customer contracts to pay a fee in exchange for a right to receive access to the supplier's application software for a specified term. The supplier's software runs on cloud infrastructure managed and controlled by the supplier. The customer accesses the software on an as needed basis over the internet or via a dedicated line. The contract does not convey to the customer any rights over tangible assets.

4. DISCUSSION

4.1 The substance of a SaaS arrangement is that an entity has contracted to receive services rather than the acquisition (or lease) of software assets. This is because, in a cloud-based environment, the SaaS contract generally only gives the customer the right to receive access to the cloud provider's application software, rather than a license over the Intellectual Property (IP), i.e. control over the software code itself.

For a SaaS arrangement to meet the criteria of a software lease it would entail the customer having rights over the underlying software and for it to be an intangible asset it would entail the customer having control and restricting the access of others to the benefit of the underlying software (as per AASB 138 'Intangible Assets'), both of which would be unusual under common SaaS arrangements.

Accordingly, most SaaS arrangements will be operating in nature and not capital, and as a result, all costs associated with implementing a SaaS arrangement that do not meet the criteria of being separately recognised as an asset will need to be operating.

4.2 Generally, the largest cost to implement a SaaS solution are configuration and customisation costs. Since the substance of a SaaS arrangement is operating in nature, these costs should be expensed, unless the criteria for recognising a separate asset are met.

- In limited circumstances, certain configuration and customisation activities undertaken in implementing SaaS arrangements may give rise to a separate asset where the customer controls the IP of the underlying software code. For example, the development of bridging modules to existing on-premise systems or bespoke additional software capability.
- In all other instances, configuration and customisation costs will be an operating expense. They are generally recognised in profit or loss as the customisation and configuration services are performed or, in certain circumstances, over the SaaS contract term when access to the cloud application software is provided.

4.3 In summary, the majority of SaaS arrangement costs will now be operating in nature. Capitalisation principles can be applied if the SaaS arrangement is a software lease or any expenditure in connection with a SaaS arrangement meet the criteria of an intangible or tangible asset.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 138, 'Intangible Assets'

6.2 AASB 116, 'Property, Plant and Equipment'.

13. Statement of Accounting Practice for Inventories

1. PURPOSE AND SCOPE

This Statement of accounting practice sets out the accounting treatment for SA Power Networks' inventory holdings.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks accounts for its inventories in accordance with:

- AASB 102, 'Inventories'

2.2 SA Power Networks values its inventories at the lower of cost and net realisable value.

2.3 Costs are assigned to inventory on a weighted average cost basis.

2.4 A provision for inventory write-down may be raised to cover the estimated value of excess and obsolete inventory.

2.5 SA Power Networks discloses its inventories in the following categories:

- Raw materials and stores;
- Work in progress;
- Finished goods.

3. DEFINITION OF TERMS

3.1 Definitions of terms relevant to accounting for inventory are contained in AASB 102 'Inventories'.

3.2 Weighted average cost

This method of assigning the cost of purchase to particular items of inventory, assigns a moving average cost arrived at by means of a continuous calculation based on the current number of inventory items, and their associated historic purchase costs.

The weighted average cost is recalculated every time there is a goods receipt, invoice receipt or inter-plant transfer order of inventory.

4. DISCUSSION

4.1 SA Power Networks measures, accounts and reports its inventory in accordance with AASB 102.

AASB 102 addresses the following topics and it should be referred to directly for measurement, accounting and reporting requirements in relation to:

- Application
- Scope
- Operative date
- Purpose of standard
- Measurement of inventories
- Cost of inventories
  - Costs of purchase
  - Costs of conversion
  - Other costs
  - Techniques for the measurement of cost
- Cost formulas
- Net realisable value
- Recognition as an expense
- Disclosure
- Definitions

4.2 SA Power Networks values its inventories at the lower of cost and net realisable value and costs are assigned on a weighted average cost basis.

4.3 When determining costs, the cost of inventories is calculated as the aggregate of the cost of purchase, costs of conversion and other costs directly attributable to the acquisition of finished goods, materials and services.

The cost of purchase, according to AASB 102 is to include inwards transport and handling costs. However, SA Power Networks:

- does not include freight costs relating to the movement of inventory between SA Power Networks depots in the cost of inventories. This cost is to be expensed; and

- where freight costs are not able to be traced to an item of inventory, then the cost of freight is to be expensed (e.g. where TNT freights items directly from the supplier and then separately invoices total freight costs based on cubic metres of freight).

4.4 Individual items of obsolete or damaged inventory should be written down to net realisable value as soon as they are identified. When it is considered necessary to write-down the value of inventory to net realisable value, i.e. in situations where net realisable value is lower than cost, due to either obsolescence, physical deterioration or excessive quantities of inventory being held, SA Power Networks may raise a provision for inventory write-down, pending a specific item by item review of the inventory items. Once the detailed review is completed the individual inventory items should be immediately written down to net realisable value against the provision.

In accordance with AASB 102, if, when net realisable value is assessed at a subsequent reporting date, the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of cost and revised net realisable value.

Work papers to substantiate the calculations and assumptions behind the provision for inventory write-down must be prepared and retained for internal control and audit requirements.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Group Financial Controller is responsible for endorsement of all inventory write-downs.

5.3 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 102, 'Inventories'

14. Accounting Guidelines for items Returned to inventory

1. PURPOSE AND SCOPE

This guideline sets out the recommended accounting treatment for items returned to inventory.

2. DISCUSSION

SA Power Networks regularly has items returned to inventory, for a number of reasons. These include:

- Transformers, meters and liquid fuses removed from service, returned for refurbishment and re-use.
- Reclamation materials - which comprise sundry (individually low value) items which are re-useable.

Australian and International Accounting Standards do not have any prescribed treatment for these items. In the absence of any guidance, this guideline is intended to outline recommended procedures which are as close to the treatment of manufactured inventory as is practical, whilst still being consistent with the general accounting standards on inventory.

For SA Power Networks general treatment of inventories, refer to the Statement of accounting practice for inventories.

In general, each item returned to inventory was previously booked out of inventory to either an operating or capital job. The ideal theoretical treatment would be to effectively reverse this, by crediting the original operating or capital project(s) when items are returned. In the case of capital projects, this would involve crediting the original asset with the written down value of the item, taking into account how much depreciation has been charged.

However, it would not generally be practical to identify the operating or capital job that an item was historically allocated to. The large number and relatively low value (from a whole of business perspective) of each individual item means that it is not cost effective to determine the job for which the items were originally charged to.

The impact on SA Power Networks operating results or capital base is not expected to be material, due to the relatively low value of items returned each year.

The treatment outlined below results in an acceptable overall outcome from a whole of business perspective.

New projects

It is common for an asset to be removed from service as part of a new capital project, (such as to install a larger transformer). For accounting and capital budgeting purposes, the new capital project must not be credited with the value of any of the released assets. This would contravene Australian Accounting Standards, which require individual asset additions and disposals to be recorded separately, and not netted off against each other.

3. GUIDELINES

3.1 Reclamation materials

Reclamation materials are sundry (individually low value) items being returned to inventory for re-use. In general, they would have been previously booked out of inventory on a capital or operating job.

The value of each item is determined by reference to the current weighted average cost (WAC) in the inventory system, and the following entry is recorded:

DR	Inventory	WAC
CR	Reclamation materials	WAC
	(operating orders - by business unit)	

This treatment assumes that:

- the returned items do not require repair or refurbishment before they are useable (in which case the need to consider the repair / refurbishment cost arises); and
- the returned items are not obsolete or excess to normal inventory requirements (in which case the need to consider the realisable value of the item arises).

3.2 Assets to be refurbished

SA Power Networks currently refurbishes items such as transformers and meters and returns them to stock for re-issue to the field. These guidelines outline a method to account for the refurbishment and comply with applicable Australian Accounting Standards.

The discussion below relates to transformers, but the same principles apply to any other items returned for refurbishment.

3.2.1 Initial treatment

When a transformer is returned from the field, it is assessed and if it is not suitable for refurbishing, is sent to scrap. Items suitable for refurbishing are held at zero value until the refurbishment process begins. This treatment is based on the premise that the original cost of the asset is incorporated into SA Power Networks' asset register and is continuing to be depreciated.

The used item is not given a value in inventory until it incurs refurbishment costs. This avoids the risk of having a large number of excess used items valued in inventory, which would then have to be considered for write downs to realisable value.

3.2.2 Refurbishment

When a transformer is about to begin refurbishment a CO production order is created to collect the costs of refurbishment.

The costs of refurbishment are collected and included in the final value of the production order. When the refurbishment is complete the item is transferred to inventory as a reconditioned item.

The valuation given in inventory depends on the type of transformer:

- smaller transformers, which are regularly refurbished, are valued at a standard cost. This standard cost represents the typical expected refurbishment costs for that transformer type.
- large transformers are refurbished less frequently. These are individually assessed and valued based on the estimated or actual refurbishment cost - depending on what cost is most appropriate. In practice, if the actual cost is not significantly different from the estimated cost, then the actual cost will be used.

Note - in all cases the valuation in inventory represents the refurbishment costs only - the original cost of the asset is incorporated into SA Power Networks' asset register and is continuing to be depreciated.

3.2.3 Journal entries

The journal entries for this process are:

Collection of the direct costs of refurbishment with labour and materials costs:

DR	CO production order (Inventory WIP)	Costs of refurbishment
CR	Material/Labour/Overhead costs	Costs of refurbishment

When completed the item is transferred to inventory. The difference between the actual costs from the CO production order and the standard cost is allocated to the standard price variation account:

DR	Inventory account	Standard cost (a)
CR	Inventory WIP	Direct costs of refurbishment (b)
CR	Standard price variation	Difference between (a) and (b)

3.3 High value items

A modification to these guidelines above is proposed for items that individually have a high value, (over $50,000 written down value), such as high-value transformers for which it is highly probable that the item will be refurbished and re-used.

When these situations arise, financial treatment should be reviewed on a case by case basis in conjunction with Financial Accounting. The following general principles should apply:

- Record the item in inventory at the current written down value for that item.
- Identify the original cost and original capital project, or at least the year of acquisition, so that a credit can be posted against the original asset.

This treatment is justified on the basis that it avoids understating inventory for the value of the large value item, and that there is little risk to SA Power Networks of the item becoming excess or obsolete.

3.3.1 Journal entries

The journal entries for this process are:

DR	Inventory account	WDV
CR	Property, plant & equipment	WDV

Where WDV is the written down value of the item, as recorded in the asset register.

Where the asset was capitalised as part of a group asset, such as transformers, the written down value of it is determined by the year of addition.

The credit to property, plant & equipment will go against the relevant year's group asset in these cases.

15. Accounting Guidelines for Inventory Substitution

1. PURPOSE AND SCOPE

This guideline sets out the recommended accounting treatment for inventory substitution.

2. DISCUSSION

Any organisation that holds inventory must regularly assess its inventory holdings for excess, slow moving or obsolete inventory. Inventory that falls into these categories is a drain on the cash resources of the organisation, as cash is invested in inventory that is better utilised elsewhere.

One way to reduce the holdings of inventory is, wherever possible, to substitute slow moving items instead of purchasing a new item. The new item may have different specifications, so this is only possible if the slow-moving inventory items can meet the technical requirements of its intended use. The new item may also have a lower cost than the holding cost of the slow-moving inventory item. The discussion and guidelines below permit, in these cases, the write-down of the slow-moving inventory item to the replacement cost of the equivalent new item.

Inventory is required to be valued at the lower of cost and net realisable value, in accordance with AASB 102 ‘Inventories’. SA Power Networks holds inventory largely for use as spares or in construction projects. The realisable value of inventory is therefore its value to the entity in these intended uses.

AASB 102, para 7, allows replacement cost to be used as the basis for determining net realisable value where it represents a fair approximation of net realisable value. This is clearly the case with SA Power Networks, as staff members selecting materials for a project will compare the inventory holding cost of an item to the cost of an equivalent part, in order to properly manage project costs. It is therefore consistent with Australian Accounting Standards to allow an item of excess or slow moving inventory to be written down to the replacement cost of an item for which it is substitutable.

3 GUIDELINES

In many cases SA Power Networks may hold items of excess or slow moving inventory, that are substitutable for a new item. SA Power Networks policy is that any project that an item of excess or slow moving inventory is issued to in substitution for a new equivalent item shall be the lower of:

- the weighted average cost (where the item is in stock) or the new equivalent inventory items’ purchase cost (where the item is not in stock); or
- the holding value of the excess or slow moving inventory.

This policy is approved in order to encourage the use of excess or slow moving inventory. Any write down of inventory in these cases should go to inventory price variation. Approval for the write-down must be in line with the established financial authorities.

If most of the holding of an excess or slow moving inventory item is expected to be eventually used in its original purpose, then the write down of items released for substitution roles should only be done on a case by case basis. If none of the inventory is expected to be used for its original purpose, but it is substitutable for new items that are available at a lower cost, then all of the current holdings of the excess or slow moving inventory should be written down to this new net realisable value.

16. Statement of Accounting Practice for Lease premium

1. PURPOSE AND SCOPE

This Statement deals with the accounting treatment of the lease premium.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 The lease premium is reported as an asset in the Statement of financial position.

2.2 The lease premium is amortised on a straight-line basis over the lease period of 200 years.

3. DEFINITION OF TERMS

3.1 Lease premium

The lease premium represents the difference between the purchase price and the fair value of the net assets acquired.

4. RESPONSIBILITIES

4.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

4.2 The Group Financial Controller is responsible for ensuring this Statement of accounting practice is complied with.

17. Statement of Accounting Practice for Prepaid borrowing costs

1. PURPOSE AND SCOPE

This Statement deals with the accounting treatment of prepaid borrowing costs.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 Prepaid borrowing costs are treated as an asset, however are shown net within borrowings in the Statement of financial position.

2.2 Prepaid borrowing costs are capitalised and amortised on a straight-line basis over the period of the borrowings to which they relate.

2.3 Annual borrowing costs are recorded as a finance expense when incurred.

3. DEFINITION OF TERMS

3.1 Prepaid borrowing costs

Up-front costs incurred in connection with the arrangement of borrowings (e.g. debt-raising costs incurred in connection with a US Private Placement).

4. RESPONSIBILITIES

4.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

4.2 The Group Financial Controller and Manager Taxation and Treasury are both responsible for ensuring this Statement of accounting practice is complied with.

18. Statement of Accounting Practice for Prepaid land lease

1. PURPOSE AND SCOPE

This Statement deals with the accounting treatment of the prepaid land lease.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 The prepaid land lease is reported as an asset in the Statement of financial position.

2.2 The prepayment is amortised on a straight-line basis over the lease period of 200 years.

3. DEFINITION OF TERMS

3.1 Prepaid land lease

SA Power Networks has leased from the Distribution Lessor Corporation (a subsidiary of the Treasurer of South Australia) distribution network land and easements. Payments due under the distribution network land lease have been prepaid.

4. RESPONSIBILITIES

4.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

4.2 The Group Financial Controller is responsible for ensuring this Statement of accounting practice is complied with.

19. Statement of Accounting Practice for Self-insurance

1. PURPOSE AND SCOPE

This Statement deals with the accounting treatment of financial risks that SA Power Networks has decided to self-insure.

This Statement applies to both forms of self-insurance - risks not insured by an external party and risks up to the excess, which varies depending on the insurance policy.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 Provision for self-insurance

SA Power Networks shall raise a claim estimate and recognise a liability as soon as a claim is lodged, or when an event has occurred which relates to one of the categories of self-insured risks. This is provided that the quantum can be reliably estimated, and it is probable that liability will be established. The claim estimate should be reviewed where any further information is received.

The provision for self-insurance reflects the extent of outstanding claims from third parties for losses uninsured by SA Power Networks, payments in respect of which will be made in the future.

3. DEFINITION OF TERMS

3.1 Self-insurance

Self-insurance means that SA Power Networks bears the risk of having to pay out of its own funds for liabilities to external parties, or for damage or destruction to its own assets.

4. DISCUSSION

SA Power Networks can assume risks by either fully self-insuring or increasing the excess applicable to an insurance policy taken out with an external insurer. Certain risks may be insignificant in relation to SA Power Networks' operations or are either not insurable or insurable only at an excessive premium. The basic purpose of self-insurance is to accept selected financial risks at a lower cost than is available through the insurance market. Therefore, SA Power Networks treats claims relating to self-insured risks as an operating expense in the period of claim as it would treat any insurance premium it would otherwise have to pay.

The Australian accounting standard, AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' states that a liability should only be recognised when:

a) it is probable that settlement will be required; and
b) the amount of such a settlement can be measured reliably.

It further states that the measurement of different liabilities can vary in reliability and at the extreme, a liability may have a range of different values. Hence, SA Power Networks may recognise a liability or a loss (for damage of SA Power Networks property) when an event has occurred, on the basis of a reasonable estimate.

The risks which are self-insured include those related to machinery breakdown, damage to motor vehicles, worker's compensation, bushfires, and other minor risks.

5. RESPONSIBILITIES

5.1 Head of Audit and Risk is responsible for:

a) assessing the extent and amount of self-insurance undertaken by SA Power Networks; and
b) ensuring that the provision of self-insurance account reflects SA Power Networks' liability for uninsured losses at any given time.

5.2 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

6. REFERENCES

6.1 AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'

20. Statement of Accounting Practice for Provision for Site Restoration

1. PURPOSE AND SCOPE

SA Power Networks is subject to a number of environmental requirements under the Environment Protection Act (SA) 1993 and subsequent regulations and policies.

This Statement deals with providing for the future costs associated with these obligations.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 Provision for site restoration

SA Power Networks is subject to a number of environmental requirements under the Environment Protection Act (SA) 1993 and subsequent regulations and policies. The nature of the Partnership's business can create potential exposure to environmental matters which SA Power Networks may be required to remedy in the future, particularly in relation to contaminated land and hazardous materials.

SA Power Networks shall recognise a liability for the costs associated with these obligations at a level considered adequate to cover future costs to the extent that SA Power Networks has a present obligation, which is reliably measurable.

This liability, the provision for site restoration, is recognised at the net present value of future cash outflows where the effect of discounting is material.

3. DISCUSSION

SA Power Networks has both a legal and corporate responsibility to ensure that oil or gas filled equipment is managed in a manner that minimises adverse effects on both the community and the environment. Under the *Environment Protection Act 1993*, SA Power Networks must not undertake any activity that pollutes or has the potential to pollute the environment unless all reasonable and practicable measures are taken to prevent or minimise any resulting harm.

When significant pollution occurs (e.g. a transformer ruptures in severe weather or due to bird strike) or is discovered (e.g. a persistent leak from a transformer or underground fuel storage tank) SA Power Networks is required to formally notify the SA Environment Protection Authority (EPA). The two sections under the *Environment Protection Act 1993* that the organisation most commonly notifies in accordance with are:

- Section 83 - notification where serious or material environmental harm is caused or threatened. For the purposes of the Act, environmental harm is deemed 'material' if it involves actual or potential harm to the health or safety of human beings or the environment that is not trivial or it results in actual or potential loss or property damage of an amount exceeding $5,000; and
- Section 83A - notification of site contamination of underground water (caused or threatened).

Site contamination assessment and remediation

SA Power Networks is obliged to investigate and remediate any environmental harm or site contamination that is caused by its activities or operations, and to notify potentially affected parties. The Environment Branch manages an ongoing program of works to remediate (treat, contain, remove or manage) site contamination at a number of sites.

In addition to the environmental incidents described above, all SA Power Networks depots had underground fuel storage tanks on site for many decades that have or may have contaminated soil or groundwater. The EPA *Guideline for the Assessment of Underground Fuel Storage Systems (2005)* stipulates that groundwater needs to be assessed in the vicinity of current and former underground fuel storage tanks for contamination.

In 2007, the *Environment Protection Act 1993* was amended to incorporate provision for site contamination. The regulations under this amendment came into force in July 2009. Assessments undertaken to meet obligations must comply with the *National Environment Protection (Assessment of Site Contamination) Measure (1999, as amended in 2013)* and the EPA *Guidelines for the Assessment and Remediation of Site Contamination (2014).*

Assessments are also undertaken to determine site contamination liabilities for any property divestment transaction e.g. substations/transformer, depots. In any property transaction, full disclosure of any potential site contamination is required to ensure SA Power Networks does not have any on-going environmental liabilities after divestment and the sale price is maximised.

Therefore, SA Power Networks shall recognise a liability for the current and future costs associated with the management, control and disposal of hazardous materials and the site remediation, as required by legislation, to the extent that SA Power Networks has a present obligation, which is reliably measurable. As the Australian accounting standard, AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' proposes that a liability should only be recognised when:

a) it is probable that settlement will be required; and
b) the amount of such a settlement can be measured reliably.

4. RESPONSIBILITIES

4.1 Executive General Manager of People & Culture is responsible for assessing the extent and amount of future costs associated with site restoration.

4.2 The Group Financial Controller is responsible for ensuring that the provision for site restoration account reflects SA Power Networks' liability for future site restoration costs.

4.3 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5. REFERENCES

5.1 Refer also to SA Power Networks' Statement of Accounting Practice, Section 3. 'Provisions, Contingent Assets and Liabilities'.

5.2 AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'

21. Statement of Accounting Practice for Partner’s equity

1. PURPOSE AND SCOPE

This Statement deals with the accounting treatment of Partner’s equity.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 Partner’s equity is reported as equity in the Statement of financial position.

2.2 Partner’s equity represents cash contributions by the Partners of the SA Power Networks’ Partnership.

3. RESPONSIBILITIES

3.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks’ statutory and reporting requirements.

3.2 The Group Financial Controller is responsible for ensuring this Statement of accounting practice is complied with.

22. Statement of Accounting Practice for Scrap

1. PURPOSE AND SCOPE

This Statement of accounting practice sets out the accounting treatment of scrapping SA Power Networks' stock and non-stock items.

This statement applies to scrapped stock and non-stock items:

- that have been declared by a manager as scrap for disposal; and
- the disposal and sale of which is managed by logistics support.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 The revenue from the sale of scrapped stock and non-stock items is included in other revenue in the statement of profit or loss and other comprehensive income in the period of the sale.

3. DEFINITION OF TERMS

3.1 Scrap

Scrap, for the purposes of this Statement of accounting practice, refers to materials and equipment removed from service that has no material value.

4. DISCUSSION

Obsolete, excess stock and non-stock items are returned to logistics support for appraisal for:

- returning to inventory stock, or
- refurbishment and returning to stock, or
- disposal by sale or scrapping.

Where the items are disposed of the revenue is to be included as other income in the Statement of profit or loss and other comprehensive income for the period, as it is not operating revenue.

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 5, 'Non-Current Assets Held for Sale and Discontinued Operations'

23. Statement of Accounting Practice for Customer contributed assets

1. PURPOSE AND SCOPE

This Statement sets out SA Power Networks' accounting treatment of customer contributed assets.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 In accordance with AASB 116 'Property, Plant and Equipment', a customer contributed asset is recognised as an asset in the Statement of financial position when control is gained over the asset (i.e. when all non-contestable works are complete and customer contributions received, net of any rebates paid).

2.2 In accordance with AASB 15 'Revenue from Contracts with Customers', assets contributed by customers on a contractual arrangement with the customer are initially recognised at fair value. With regards to consideration (i.e. consideration other than cash) this should be measured with reference to 'fair value' (specific guidance in contained in AASB 13 'Fair Value Measurement').

3. DEFINITION OF TERMS

3.1 Contributions:

Contributions made towards SA Power Networks' capital cost of constructing non-current assets.

4. DISCUSSION

4.1 SA Power Networks' customers are required to contribute to the capital cost of any alterations to SA Power Networks' distribution system requested by them. These payments are required before the work is commenced. These alterations include the following:

a) Primary extensions where a new extension to the supply is required

b) Alterations to existing supply

c) Additional services

d) Duplicate services

e) Undergrounding supply in a new subdivision

f) Undergrounding costs shared in local councils

4.2 In accordance with AASB 16 'Property, Plant and Equipment', a customer contributed asset is recognised as an asset in the Statement of financial position when control is gained over the asset (i.e. after all non-contestable works are complete and customer contributions received, net of rebates paid).

4.3 In accordance with AASB 15 'Revenue from Contracts with Customers', assets contributed by customers under a contractual arrangement with the customer are initially recognised at fair value. Consideration (other than cash consideration) should be measured with reference to 'fair value'.

4.4 In accordance with AASB 13 'Fair Value Measurement', an entity should use valuation techniques to measure fair value that is appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

4.5 The 'fair value' of the non-current asset recognised by SA Power Networks in the Statement of financial position is the total construction cost (incurred by SA Power Networks) less customer contributions received (net of rebates paid) and an equal amount recognised in the Statement of profit and loss. SA Power Networks considers the income approach (or discounted cash flow model) to be most appropriate, which represents the future economic return expected to be derived from the specific extension or modification to the network (i.e. the amount included in the RAB and generates a future regulatory return).

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 15 'Revenue from Contracts with Customers'

6.2 AASB 13, 'Fair Value Measurement'.

6.3 AASB 116, 'Property, Plant and Equipment'.

24. Statement of Accounting Practice for Gifted asset revenue

1. PURPOSE AND SCOPE

This Statement sets out SA Power Networks' accounting treatment of gifted asset revenue.

This Statement covers the recognition of gifted asset revenue in relation to underground residential projects (URD), underground industrial developments (UID), power line environment committee projects (PLEC) and other contestable projects.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 In accordance with AASB 116 'Property, Plant and Equipment', gifted asset revenue is recognised as an asset in the Statement of financial position when control is gained over the asset (i.e. when all non-contestable works are complete and SA Power Networks gains control of the asset).

2.2 In accordance with AASB 15 'Revenue from Contracts with Customers', assets "gifted" by customers on a contractual arrangement with the customer are initially recognised at fair value. With regards to consideration (i.e. consideration other than cash) this should be measured with reference to 'fair value' (specific guidance in contained in AASB 13 'Fair Value Measurement').

3. DEFINITION OF TERMS

3.1 Gifted assets:

Gifted assets are non-current assets which are vested to SA Power Networks. In respect of this Statement, they are specifically distribution assets resulting from underground residential development projects (URD), underground industrial developments (UID), power line environment committee projects (PLEC) and other contestable projects.

4. DISCUSSION

There are four types of gifted assets within SA Power Networks, underground residential development projects (URD), underground industrial developments (UID), power line environment committee projects (PLEC) and other contestable projects. The majority of gifted asset revenue is derived from URD and UID, and PLEC, each of which is described below.

4.1 URD and UID

URD and UID involves the installation of underground distribution mains in new residential or industrial developments.

Developers can choose either SA Power Networks or accredited private contractors to undertake both design and construction of URD and UID work.

Should an external contractor undertake the work, upon completion, the developer vests the asset back to SA Power Networks.

If the work is undertaken by SA Power Networks, then the expenditure is treated as capital expenditure from project commencement (refer to section on Customer contributed assets).

4.2 PLEC

The power line environment committee (on which SA Power Networks is represented) is responsible for approving projects that are designed to underground existing overhead mains or otherwise altering them for environmental benefit. PLEC projects can be categorised into two major types:

- *The undergrounding of powerlines, which result in aesthetic improvements*

  With this type of PLEC project, the council involved will often be responsible for carrying out the trenching work, customer service alterations and the registration of easements, while SA Power Networks is responsible for the actual installation of the new underground mains.

- *The undergrounding of powerlines as part of a road widening project by The Department for Transport and Infrastructure (DPTI).*

  Under this category of PLEC work, if DPTI initiates a road reconstruction project that involves the undergrounding of powerlines, then the council involved will often be responsible for carrying out customer service alterations and the registration of easements, SA Power Networks will be responsible for the actual installation of new underground mains and DPTI will be responsible for the trenching work and installation of new public lighting.

In both instances, upon completion, the resulting one third contribution provided by the council or DPTI (net of any customer service alterations) is vested (contributed) back to SA Power Networks. SA Power Networks' project contribution from project commencement is fair value adjusted by the contribution received and treated as capital expenditure.

4.3 In accordance with AASB 116 'Property, Plant and Equipment', gifted assets are recognised as an asset when SA Power Networks gains control of the asset.

4.4 In accordance with AASB 15 'Revenue from Contracts with Customers', assets gifted by customers are initially recognised at fair value. Consideration (other than cash consideration) should be measured with reference to 'fair value'.

4.5 The 'fair value' of the non-current asset recognised by SA Power Networks in the Statement of financial position is the value of rebate paid to the customer and an equal amount recognised in the Statement of profit and loss (i.e. gifted revenue). SA Power Networks considers the income approach (or discounted cash flow model) to be most appropriate, which represents the future economic return expected to be derived from the specific extension or modification to the network (i.e. the amount included in the RAB and generates a future regulatory return).

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 15 ‘Revenue from Contracts with Customers’.

6.2 AASB 13, ‘Fair Value Measurement’.

6.3 AASB 116, ‘Property, Plant and Equipment’.

25. 24. Statement of Accounting Practice for Government grants

1. PURPOSE AND SCOPE

This Statement of accounting practice deals with the accounting treatment of SA Power Networks' receipt of Government grants.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 Government grants relating to income are recognised as income over the periods necessary to match them with the related costs (for which the grants are intended to compensate).

2.2 Government grants relating to assets are treated as deferred income and recognised in the profit or loss over the expected useful lives of the assets (or by deducting the grant in arriving at the carrying amount of the asset).

2.3 Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised as 'income' (i.e. not revenue) of the period in which the grant is received.

3. DEFINITION OF TERMS

3.1 Government grants

Assistance by the government or another funding body (e.g. ARENA) in the form of transfers of resources to the entity in return for past or future compliance with certain conditions relating to operating activities of the entity. These can also include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

4. RESPONSIBILITIES

4.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

4.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

5. REFERENCES

5.1 AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance'.

26. Statement of Accounting Practice for Employee entitlements

1. PURPOSE AND SCOPE

This Statement sets out SA Power Networks' accounting treatment for employee entitlements earned from employees' rendering their services.

Utilities Management Pty Ltd (UMPL) is a company set up to provide human resources and employee services to SA Power Networks. UMPL employ all the employees transferred from the government upon privatisation.

This Statement is intended to cover all the benefits due to employees with respect to their employment and addresses specifically: wages and salaries, annual leave, sick leave and long service leave. Superannuation is the subject of a separate statement.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 SA Power Networks accounts for employee entitlements in accordance with AASB 119, 'Employee Benefits'.

2.2 The liabilities for annual leave and long service leave for employees of UMPL are recorded in the general ledger of UMPL, which is the employer.

2.3 The liability for annual leave is recognised and measured as the amount unpaid at period end at current pay rates including all on-costs in respect of employees' services up to that date.

2.4 The liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to period end. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments, including all on-costs, are discounted using interest rates on Australian corporate government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

3. DEFINITION OF TERMS

3.1 Definitions of terms relevant to accounting for employee entitlements are contained in AASB 119.

3.2 Utilities Management Pty Ltd (UMPL)

Utilities Management Pty Ltd (UMPL) is a company set up to provide human resources and employee services to SA Power Networks and holds the employment contract of all SA Power Network employees.

3.3 Partnership Agreement

Agreement governing the relationship of the Partners with SA Power Networks and UMPL.

4. DISCUSSION

Background

For accounting purposes, all employee entitlements for the employees of UMPL are recorded as provisions in UMPL and included within the consolidated accounts of SA Power Networks.

Under the Partnership Agreement, any cash costs incurred by UMPL in connection with making employees available to SA Power Networks (or any other subsidiary e.g. Enerven) are to be reimbursed by the Partnership. Furthermore, all debts, obligations and other liabilities incurred by UMPL in performance of its designated functions are incurred on behalf of SA Power Networks and a Right of Indemnity ensures the protection of employees of UMPL.

Accounting treatment

SA Power Networks accounts and reports for employee entitlements in accordance with AASB 119.

The accounting standard addresses the following topics and it should be referred to directly for accounting and reporting requirements in relation to:

- Definitions
- Recognition of employee entitlement expenses, liabilities, assets and revenues
- Measurement of liabilities, expenses, assets and revenues:
    - Wages, salaries and annual leave
    - Non-monetary benefits
    - Long service leave
    - Sick leave
    - Post-employment benefits other than superannuation
    - Post-employment medical benefits
    - Termination, retirement, retrenchment or redundancy payments
- Disclosures
- Netting of revenues, expenses, assets and liabilities
- Comparative information

5. RESPONSIBILITIES

5.1 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.

5.2 Finance managers are responsible for ensuring this Statement of accounting practice is complied with.

6. REFERENCES

6.1 AASB 119, 'Employee Benefits'.

27. Statement of Accounting Practice for Bad debts

1. PURPOSE AND SCOPE

This Statement of accounting practice deals with the accounting treatment of SA Power Networks' bad and doubtful debts.

2. STATEMENT OF ACCOUNTING PRACTICE

2.1 At balance date, the value of accounts receivable which are likely to turn in bad debts to SA Power Networks are recognised in the Statement of financial position as a 'Provision for doubtful debts' (and shown as net of total receivables).

2.2 All uncollected accounts are written off as bad debts when it is determined that the debt is irrecoverable.

3. DISCUSSION

3.1 Introduction

There is currently no specific Australian Accounting Standard on the treatment of bad and doubtful debts. The generally accepted method of reporting bad debts is to write-off realised bad debts as an expense in the period when its determined irrecoverable, and to create a provision for doubtful debts for those debts which are likely to become bad debts (generally on a probability basis).

3.2 Bad debts

Realised bad debts for a period are written off against accounts receivable as an expense. SA Power Networks' policy is to write off accounts as bad debts when it is determined that the debt is irrecoverable. Detailed records are maintained for bad debts written off.

3.3 Doubtful debts

The provision for doubtful debts is shown in the Statement of financial position as an offset to accounts receivable and is calculated to reflect the current value of all accounts receivable at balance date.

The value of the provision is an estimate of current accounts receivable which are likely (on a probability basis) to be bad debts to SA Power Networks. The value of the provision is to be determined in accordance with the reconciliation procedure statement for the provision for doubtful debts.

4. RESPONSIBILITIES

4.1 The Group Financial Controller is responsible for determining the provision for doubtful debts.

4.2 The Head of Audit and Risk is responsible for writing off to the irrecoverable loss account all uncollected insurance debts determined to be not recoverable.

4.3 The Chief Financial Officer is responsible for ensuring this Statement of accounting practice is kept current and meets SA Power Networks' statutory and reporting requirements.