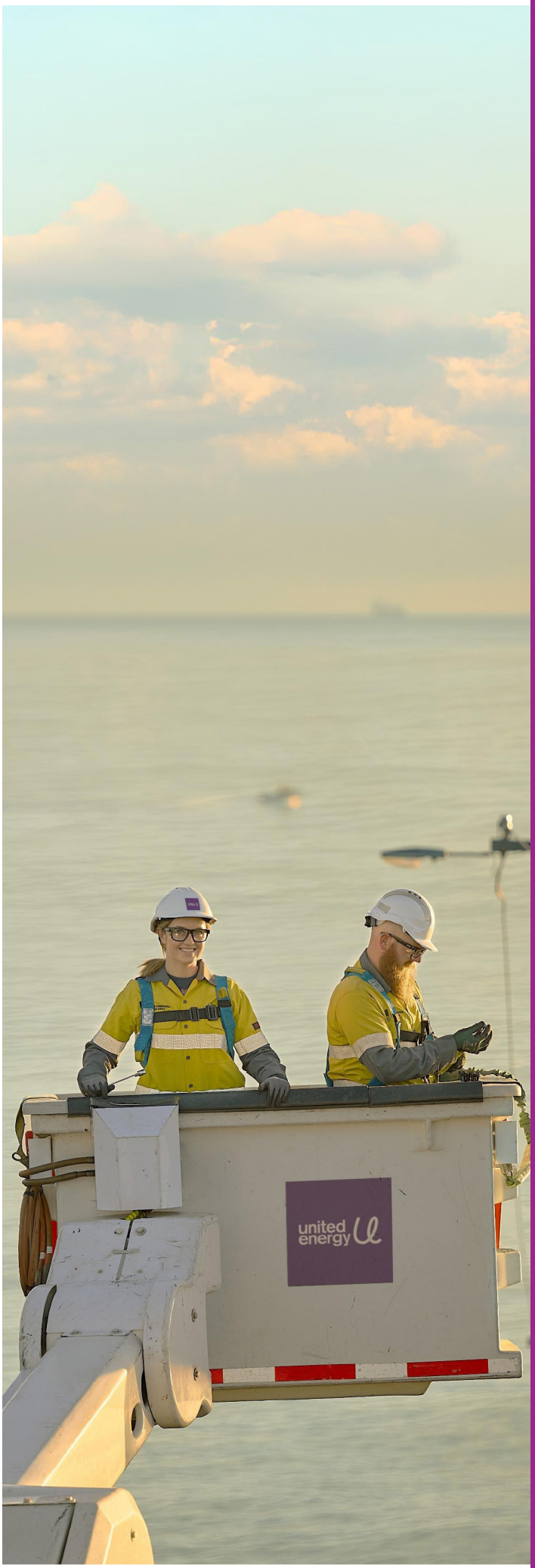


CAPITALISATION POLICY

UE ATT 1.03 – PUBLIC
2026–31 REGULATORY PROPOSAL

Contents

1 Purpose

The purpose of the Fixed Asset Policy paper is to establish principles by which United Energy accounts for items of Property, Plant & Equipment and selected Intangible assets in its General Ledger to ensure fixed asset information is accurately reflected in generating financial and management reports.

2 Executive Summary

This policy provides an overview of the capitalisation principles for United Energy. This policy has considered accounting, tax, regulatory and business considerations in assessing whether an asset should be capitalised.

This policy sets out high level procedures which will enable the fixed asset registers to accurately record, update, extract and report on fixed asset information in the general ledger for financial and management reporting, tax, legal and regulatory.

3 Definitions

For purposes of this policy, unless otherwise stated, the following definitions shall apply:

AASB	Australian Accounting Standards Board
Accumulated Depreciation	The total depreciation taken for an asset since it was placed in service. Also known as life-to-date depreciation and depreciation reserve
Amortisation	Amortisation is the systematic allocation of the cost of an intangible asset over its useful life
AER	Australian Energy Regulator
Asset	A resource controlled by an entity as a result of past transactions and from which future economic benefits are expected to flow to the entity. The common understanding of an asset is that it is an item (tangible or intangible) that is considered to have an enduring value
Asset Type	Either tangible, intangible or in kind
Board	The Board of United Energy Distribution Holding Pty Ltd and all of its subsidiaries, known as UE Group (UE)
Books	Shows the financial information regarding the expenditure, depreciation and treatment of the asset within the Fixed Asset module.
Capex	Expenditure incurred on capitalised assets
Capitalised Assets	Assets recorded on a fixed asset register that depreciate or amortise where applicable and have a useful life of more than one year

Capital Project	A project to build or purchase one or more depreciable or amortisable fixed assets
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIRB	Capital Investment Review Board
Depreciate	To spread the cost of an asset over its useful life. Depreciation expense is charged for the asset each period. The total depreciation taken for an asset is stored in the accumulated depreciation account
Expenditure	This represents costs incurred by United Energy in the operation of the business
Expensed	Expenditure incurred is included as operational expenditure attributing to the statement of income position for the period (i.e. profit and loss). It is also referred to as 'opex' expenditure.
Fixed Asset	An asset owned by the business recorded on the SAP Fixed Asset Register
Future economic benefit	Is synonymous with the notion of service potential. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly for a period greater than one year, to the flow of cash and cash equivalents to United Energy
Intangible Asset	An intangible asset is an identifiable asset without physical substance
MG	Multinet Group Holding Pty Ltd and all its subsidiaries
Opex expenditure	Refer 'Expensed' definition
IS	Information Systems
IT	Information Technology
ITEF	Information Technology Executive Forum

OMSA	Operational and Management Service Agreement. An agreement between UE and their Service Providers covering multiple issues.
SAP	Software used by UE to record and manage it business processes including the general ledger
Period	The time period of 12 months
Procurement policy	This is the policy that provides guidelines and controls for purchasing in UE & MG
PP&E	Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period
PM Module	Plant Maintenance Module of SAP. This module contains operational information on selected network assets.
Service potential	The total future service capacity of an asset. It is normally determined by reference to the operating capacity and economic life of an asset.
Tangible Asset	Tangible assets are items of PP&E that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period
UE	United Energy Distribution Holdings Pty Ltd and all of its subsidiaries
Useful life	The period over which an asset is expected to be available for use by an entity
WBS	Work Breakdown Structure is a SAP term used to identify expenses and capital purchases
WIP	Work In Progress represents capitalised expenditure on assets that are either not completed, not installed, not available or not ready for use

4 Scope

The policy is intended to set out guiding principles United Energy should apply when evaluating whether expenditure should be capitalised or expensed. The policy identifies types of assets and covers high level classifications of assets and sets out the significant events that may occur in a fixed asset register during the life of an asset.

The policy does not represent a full set of instructions for capitalising an asset but rather a set of guidelines for assessment. Disclosures are not detailed in this policy document.

The policy does not cover intangible assets that are not recorded in the SAP Fixed Asset module such as goodwill, licences etc.

This policy does not address:

- Impairment as outlined in AASB136 *Impairment of Asset*. This is addressed in policy COR-057-POL
- The justification and approval of expenditure as this is covered in other policies, primarily the procurement policy, PRO-004-POL
- Insurance of assets as this is covered in insurance policy UE-MGH CI 001
- Leased Assets as outlined in AASB 117 *Leases*
- Customer Contributions
- Inventories as outlined in AASB 102 *Inventories*
- *Non Current Assets held for sale and Discontinued Operations AASB 5*

5 Policy

5.1 Types of Fixed Assets

An asset is a resource controlled by an entity as a result of past transactions and from which future economic benefits are expected to flow to the entity[1]. The common understanding of an asset is that it is an item (tangible or intangible) that is considered to have an enduring value. **To be recognised as an asset it has to have a useful life of more than one year and a measurable value.**

Fixed assets on the SAP fixed asset register are categorised as either tangible or intangible assets.

5.1.1 Tangible Fixed Assets:

Where a fixed asset is categorised as tangible, it is classified on the balance sheet as part of Property, Plant & Equipment and subject to the Australian Accounting Standards Board Standard 116 *Property, Plant and Equipment* (AASB 116) requirements.

Property, plant and equipment are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) are expected to be used during more than one period.[2]

A tangible asset is a physical asset i.e. it can be physically seen and touched. Examples include land, buildings, network assets, plant, equipment, motor vehicles, office furniture etc.

5.1.2 Intangible Fixed Assets:

Where a fixed asset is categorised as intangible, it is classified on the balance sheet as part of Intangible Assets and subject to the Australian Accounting Standards Board Standard 138 *Intangible Assets* (AASB 138) requirements.

An intangible asset is an identifiable asset without physical substance.[3]

An example of an intangible asset on the fixed asset register is software. There can be other intangible assets such as goodwill and licences however these are outside the scope of this policy.

Refer to section 5.6 of this policy for more detail.

[1] AASB 138, paragraph 8

[2] AASB 116, paragraph 6

[3] Based on the definition in AASB 138, paragraph 8

5.1.3 In Kind Assets:

An in-kind asset is an asset or a portion of an asset that is gifted to UE by a customer. The asset arises where a customer elects to build an asset instead of UE building the asset. Ownership of the asset to UE is handed over on completion. The customer's contribution towards the asset is called an 'in-kind' contribution.

The value of United Energy's network assets is increased by the estimate of the value of the 'in-kind' portion of the asset and offset with the recognition of revenue for 'in-kind contributions'. This is similar to a donation with the distinguishing factor being the customer is required to gift the assets to the distribution company according to the current regulatory regime. An in-kind asset is also a type of tangible asset.

5.2 What's the difference between "expensed" and "capitalised"?

Expensed This means that the expenditure incurred is included as operational expenditure attributing to the statement of income position for the period (i.e. profit and loss). It is also referred to as 'opex' expenditure.

Capitalised This means that the expenditure is recognised as an asset in the balance sheet and is depreciated or amortised over the life of the asset which must be greater than one year. It is also referred to as 'capex' expenditure.

5.3 Identifying Expenditure to be Capitalised

United Energy has no dollar amount threshold for expenditure to be considered of a capex or opex nature. A common misconception is that the business has a capital threshold of $300, $500 or $1,000 below which all expenditure is considered to be opex in nature. This is incorrect. All expenditure must be considered against the statements contained in this policy for a decision on whether the expenditure is classified as capex or opex.

Decisions to either capitalise or expense expenditure incurred in relation to the acquisition or construction of assets is largely a matter of professional judgement. This view is reiterated in the accounting standards, which offer guidance to help professionals make these decisions but provide few examples of costs that must be treated as either capital or expense.

If after reading this policy, further guidance is required, contact the Fixed Asset Accountant.

Recognition Criteria:

There are different criteria for recognising tangible and intangible assets.

Tangible:
The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if,
a) It is probable that the future economic benefits associated with the item will flow to the entity; and
b) The cost of the item can be measured reliably[4].

[4] AASB 116, paragraph 7

Intangible:

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) The definition of an intangible asset

- *i. Identifiable i.e. it is separable or arises from contractual or other legal rights*
- *ii. The entity has control over the asset*
- *iii. Future economic benefits must flow from the asset e.g. revenue from the sale of goods or services, cost savings or other benefits resulting from the use of the asset by the entity and*

(b) The cost of the item can be measured reliably[5].

For the elimination of doubt, probable future economic benefits means the asset is expected to be used during more than one period, i.e. greater than one year.

It is worth noting that expenditure is capitalised until an item of property, plant and equipment is in the location and condition necessary for it to be capable of operating in the manner intended by management.[6] This will need to be assessed on an asset by asset basis as management intentions may change on completion of an asset. Refer to section 5.6.2.1 for an example.

This means allowable expenditure can be accumulated as capital up to the time the asset is installed and ready for use, after which, certain expenditure must then be expensed.

Allowable Expenditure for Capitalisation under the Accounting Standards i.e. Capex:

AASB 116 para 11	Items of property and equipment may be acquired for safety and environment reasons. Such acquisitions although possibly not directly increasing the future economic benefits of any existing item of PP&E may be necessary for an entity to obtain a future economic benefit from its other assets. For instance, the expenditure of upgrading plant and equipment to meet more stringent environmental regulations could be capitalised on the basis that the business could not operate the assets and derive an income without first meeting the regulations and incurring the expenditure.
AASB 116 para 13	Partial replacement of an asset can be capitalised where this contributes to future economic benefits of the asset in that they either: • Extend the useful life of an asset • Improve its output • Reduce the operating cost of the asset. The carrying amount of the parts that are replaced needs to be identified and retired. Repairs and maintenance costs are excluded from being capitalised, refer to 'Disallowable Expenditure for Capitalisation under Accounting Standards' in this policy.
AASB 116 para 14	Costs incurred in performing regular major inspections for faults regardless of whether parts of the existing assets are replaced. Any remaining carrying amount of the cost of previous inspection must first be derecognised.
AASB 116 para 16 (a)	The purchase price of an item of PP&E, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
AASB 116 para 16(b)	Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

[5] AASB 138, paragraph 11 to 24

[6] AASB 116, paragraph 20

AASB 116 para 16(c)	The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either: • when the item is acquired; or • as a consequence of having used the item during a particular period. Note: These costs may arise under a legal or constructive obligation per AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 14 (a).
AASB 116 para 17(a)	Costs of employee benefits (as defined in AASB 119 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment.
AASB 116 para 17(b)	Costs of site preparation.
AASB 116 para 17(c)	Initial delivery and handling costs.
AASB 116 para 17(d)	Installation and assembly costs.
AASB 116 para 17(e)	Cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment).
AASB 116 para 17 (f)	Professional fees. Note training is not included as part of professional fees.
AASB 116 para 49	Depreciation of pre-existing assets employed in the production of a new asset (i.e. depreciation expense directly attributable to equipment used in the construction of network asset).
AASB 116 para 22	The cost of a self-constructed asset is determined using the same principles as for an acquired asset. This means a self-constructed asset's cost includes direct material, direct labour, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and an appropriate proportion of any directly attributable production overheads.
AASB 123 (12)	Interest (or borrowing costs) associated with funds borrowed expressly for the purpose of obtaining a qualifying assets. A qualifying asset is defined in AASB 123 para 5 as 'An asset that necessarily takes a substantial period of time to get ready for its intended use or sale'.
UIG 1031 para 7	GST that is not recoverable from the tax authorities.

In addition to the above expenditure may be capitalised where it has been incurred to remove an asset and replace it with another asset and this expenditure is incidental, difficult to separate from the overall expenditure and also incurred to install the replacement asset, E.g. if a pole is being replaced, the labour cost incurred to remove the old pole before the replacement pole can be installed may be capitalised. If expenditure is incurred to remove an existing asset without installing a new asset then this expenditure must be expensed as it has no future economic benefit.

All expenditure to be capitalised is subject to the "*measurement at recognition*" criteria as per AASB 116 paragraph 15 & AASB 138 paragraphs 18 to 24 which requires all capitalised expenditure to be measured at its cost.

Disallowable Expenditure for Capitalisation under the Accounting Standards

AASB 116 para 12	The costs of day-to-day servicing of the asset. This may include labour and consumables and the cost of small parts. The purpose of these expenditures is often described as 'repairs and maintenance'. Expenditure that does not increase the level of economic benefits that flow from the use of an asset in future periods must be treated as expense when incurred.
AASB 116 para 19(a)	Costs of opening a new facility.
AASB 116 para 19(b)	Costs of introducing a new product or service (including costs of advertising and promotional activities).
AASB 116 para 19(c)	Costs of conducting business in a new location or with a new class of customer.

AASB 116 para 19(c), AASB 138 para 15 and AASB 138 para 67(c)	Costs of staff training. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset.
AASB 116 para 19(d)	Administration and other general overhead costs.
AASB 116 para 20(c)	Costs of relocating or reorganising part or all of an entity's operations. This means the relocation costs of moving an existing physical asset from one location to another cannot be capitalised.
AASB 116 para 20	Costs are excluded from capital once the asset is in the location and condition necessary to be capable of operating in the manner intended by management.
AASB 116 para 21	Incidental income or expense generated by the asset prior to it being capable of being used for its intended purposes.
AASB 116 para 22	The cost of abnormal amounts of wasted material, labour or other resources included in self-constructing an asset.
UIG 1031 para 6	GST that is recoverable from the tax authorities.
AASB 116 para 48	Depreciation expense, unless it is included in the carrying amount of another asset as per AASB 116 para 49.
AASB 138 para 97	Amortisation of intangible assets unless AASB 138 or another accounting standard permits or requires it to be included in the carrying amount of an asset.

5.4 Capital Expenditure Financial and Procurement Controls

Capital expenditure has various types of categories as outlined in the sections above. This section outlines the framework of documents that establish the procurement and financial controls over the capital expenditure within the UE business for each category of capital.

Some non-network projects are also governed by individual steering committees.

5.4.1 Capital Expenditure Procurement Controls

There are a number of documents that create a procurement capital expenditure control framework. Each document contains specific controls within the capital expenditure process. The documents (other than this policy) include:

- Procurement Policy – Provides Guidelines and controls for all expenditure procurement
- Procurement Manual – Provides procedural approach for purchasing
- Delegation of Authority Policy – Establishes purchasing authority
- Accounts Payable Policy – Provides overview of controls over payments for all expenditure

5.4.2 Capital Expenditure Financial Controls

There are a number of documents that establish the financial controls for capital expenditure. Each document contains specific controls within the capital expenditure process. The documents (other than this policy) include:

- Investment Management Procedure – Controls capital allocation in SAP
- Annual Budgeting Policy – Controls the total allowed expenditure for the financial year
- Forecasting Policy – Provides controls over expected capital expenditure for the forecast period to compare against the approved budget
- CIRB Charter – Review of capital expenditure especially capital expenditure greater than $1m and any capital expenditure that may impact UE's risk profile (this is discussed further below)
- IT Project Financial Management Process

5.4.3 CIRB Sub Categories and OMSA Capital Expenditure Controls

There are additional controls within the CIRB charter which has a summary of the UE capital expenditure controls. This sets out the procedure for authorisation which is dependent on the category of capital expenditure. The categories of expenditure subject to the CIRB Charter are as follows:

Capex Category	Definition
Standing Capex	This relates to expenditure as detailed in the OMSA where there are prescribed rates with corresponding thresholds. This expenditure is incorporated into the annual capital expenditure budget. This is approved prior to the start of the financial year by the General Manager Electricity Networks and General Manager Service Delivery.
Individual Capex Projects	This relates to capital expenditure on individual projects and is governed via a tiered process: • Small - less than $20k • Medium - between $20k and $100k • Large - greater than $100k # Refer to the CIRB Charter for approvers of each tier.
Customer Initiated Capital (CIC)	This relates to capital expenditure initiated by customers and is governed by a tiered process: • Small - less than $20k • Medium - between $20k and $100k • Large - greater than $100k # Refer to the CIRB Charter for approvers of each tier.
Non-Network Distribution	This relates to any capital expenditure not directly related to the network. For example building a new fence at Burwood depot, service provider fleet purchases etc.

5.4.4 Non CIRB Direct Capital Expenditure Controls

This category of capital expenditure is governed by the budget that is allocated each financial year.

Capex Category	Definition
Non-Network Other	This relates to work on non-network assets paid directly by UE. It includes: • In house fleet purchases, accommodation fit out and • Miscellaneous non-network capital expenditure.

5.4.5 IT Executive Forum Capital Expenditure Controls

This category of IT capital expenditure is governed by the budget that is allocated each financial year. The following controls apply:

Capex Category	Definition
IT Executive Forum	All projects over $500k have a business case and projects below this have a decision paper written and approved. • Capital expenditure below $250k is approved by the Head of Information Technology • The General Manager Customer & Technology approves to up $500k • The General Manager Customer & Technology also approves amounts up

	to $1m, however if expenditure is between $500k and $1m, it is presented to the IT Executive Forum (ITEF) for noting • The ITEF approves expenditure above $1m. The ITEF is the IT equivalent of the CIRB and consists primarily of executive membership.

5.5 Capital Work in Progress

At any time, United Energy is involved in the construction of capital projects. Expenditure incurred in relation to these projects is recorded in one and/or two Work in Progress (WIP) general ledger accounts, tangible and intangible WIP. The expenditure is recorded against capital projects in SAP (via the use of a WBS), until the asset(s) under the project are in the location and condition necessary for them to be capable of operating in the manner intended by management i.e. physically complete.

As tangible assets are required to be classified in the balance sheet as part of PP&E and intangible asset are required to be classified in the balance sheet as an intangible, it is necessary for all capital projects to be established in SAP with separate WBS projects for their tangible and intangible components. This requirement is most commonly required for IS projects where hardware is purchased and software is either purchased and/or developed in-house. It is therefore necessary to also assign the correct tangible or intangible WBS element to all expenditure under the project.

A project is considered complete when the asset(s) are in the location and condition necessary for them to be capable of operating in the manner intended by management. When a project is complete, the value of capital accumulated in WIP must be transferred to final, depreciating or amortising assets in a timely manner.

There may be projects where there is a difference between physical completion and financial completion of a project.

Physical completion means the asset(s) are in the location and condition necessary for them to be capable of operating in the manner intended by management. For intangible projects, this means the software has gone live and is in production i.e. the 'go-live' date.

Financial completion means the project is physically complete and also all expected expenditure incurred on the project has been charged to the project.

There can be significant time differences on major and even minor projects between physical and financial completeness. It is not uncommon for differences of nine to 12 months.

Projects must be cleared from WIP:

(a) When the project is first considered to be physically complete
(b) Then each month thereafter when further expenditure has been incurred on the physically complete project.

When the last costs have been incurred on the project, the final transfer from WIP should be processed and the capital project closed.

It is the responsibility of IT, service providers and other departments within UE to review WIP. The Management Accountant of each area must provide the Fixed Asset Accountant evidence of the review on a three monthly basis via email, completed within four weeks of each quarter end. The UE WIP KPI should be referenced to form the basis of the review.

The Fixed Asset Accountant is responsible for reporting non-compliance with this policy to their

manager.

5.6 Intangible Expenditure

Intangible project expenditure can be capitalised where it meets the definition and recognition criteria for a tangible asset under AASB 116 *Property, Plant and Equipment* or for an intangible asset under AASB 138 *Intangible Assets*. Information Technology hardware is a tangible asset, falling under AASB 116 while software and deferred expenditure is considered an intangible asset, falling under AASB 138.

The ability to capitalise intangible expenditure under AASB 138 is a two step process.[7]

The first step is for the expenditure to meet the identifiability criterion[8].

(a) [the item] is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
(b) [the item] arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The second step is for the expenditure to meet the recognition criteria[9]:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
(b) the *cost* of the asset can be measured reliably.

5.6.1 Internally Generated

Internally generated intangible assets must be classified into either a research phase or a development phase.

(a) *Research* is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.[10] In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits so the expenditure is expensed when it is incurred.[11] Examples of research activities are[12]:

   i. activities aimed at obtaining new knowledge
   ii. the search for, evaluation and final selection of, applications of research findings or other knowledge

[7] AASB 138, paragraph 18

[8] AASB 138, paragraph 12(a) & 12(b)

[9] AASB 138, paragraph 21 (a) & 21(b)

[10] AASB 138, paragraph 8

[11] AASB 138, paragraphs 54 & 55

[12] AASB 138, paragraph 56

iii. the search for alternatives for materials, devices, products, processes, systems or services; and
iv. the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

An example of the research phase would be activities completed prior to the development of a business case.

(b) *Development* is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.[13] In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.[14] Examples of development activities are:[15]

i. the design, construction and testing of pre-production or pre-use prototypes and models
ii. the design of tools, jigs, moulds and dies involving new technology
iii. the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
iv. the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

Expenditure relating to the development phase may be capitalised if the entity can demonstrate **all** of the following:[16]

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale
(b) its intention to complete the intangible asset and use or sell it
(c) its ability to use or sell the intangible asset
(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

5.6.2 Information Services Expenditure Classification

The following are examples of Information Services expenditure reflecting scenarios where the expenditure may be either capitalised or expensed.

- Hardware maintenance support incurred at the same time as the initial capitalisation of the

[13] AASB 138, paragraph 8

[14] AASB 138, paragraph 58

[15] AASB 138, paragraph 59

[16] AASB 138, paragraph 57

hardware. This support is typically for a period between 12 months and three years. United Energy capitalise the expenditure of this support against the asset as it is deemed to be necessarily incurred in bringing the asset into use.

- Hardware maintenance support incurred subsequent to the initial capitalisation of the hardware. This is typically support for a 12 month period. United Energy do not capitalise this expenditure. There are no future economic benefits to United Energy beyond a 12 month period so the expenditure cannot be considered to be capital in nature. Such expenditure may be initially classified in the balance sheet as a prepayment and recognised as an expense in the profit and loss over the 12 months of the maintenance period.

- Software maintenance support incurred at the same time as the initial purchase of the software. This support is typically for a period of 12 months. United Energy capitalise the expenditure of this support against the asset as it is deemed to be necessarily incurred in bringing the asset into use.

- Software maintenance support incurred subsequent to the initial capitalisation of the software. This is treated the same as hardware maintenance support incurred subsequent to the initial capitalisation of the hardware.

- Software licence fees. If the licence is for a 12 month period United Energy do not capitalise this expenditure. If the licence is for a period beyond 12 months it may be capitalised and amortised over the shorter of the period of the license or United Energy's useful life for software.

5.6.2.1 Exception

The exception to the above is where expenditure that would otherwise not be allowed to be capitalised is necessarily incurred in bringing the asset into the condition necessary for use. Such expenditure ceases to be capitalised when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

This means that expenditure on items such as 12 month hardware and software maintenance may be capitalised up to the 'go-live' date of the project as part of the overall software asset(s) capitalised for the project. After the 'go-live' date any annual software maintenance cannot be capitalised and must be treated as outlined above.

5.7 Overhead Allocation

Expenditure can only be capitalised to a project where the underlying asset is clearly identifiable. This means that any overhead expenditure may only be capitalised if it can be directly attributable to an underlying asset or a group of underlying assets. As a result of this, all capitalised overhead must be allocated to the individual capital project(s) to which it relates as opposed to accumulating all overhead into one capital project. If the overhead expenditure cannot be allocated to an appropriate individual project(s), the overhead expenditure must be expensed when incurred.

As an example the Capital Project Estimator labour time may be included as part of capitalised overhead attributable to a group of projects in any given month.

In some instances it may be deemed that a portion of an employee's labour cost may be directly attributable to a project(s). In these circumstances the capital portion of the project related expenditure may be capitalised to a group of projects in any given month.

5.8 Allocation of Assets between Entities

One physical asset can only be owned by one company. In some cases the physical asset may only be a part, but the part must be a recognisable separate component. This means that with the exception of the below, there can be no percentage allocation of an individual tangible asset between United Energy and Multinet Gas or any other entity.

If a percentage allocation is required, the value for each individual tangible asset must still be 100% allocated to one entity but the apportionment can be achieved by assigning individual assets between the two entities. For example if two vehicles were purchased, with a 50% allocation to United Energy and a 50% allocation to Multinet Gas, United Energy should be charged with the value of one vehicle and Multinet Gas charged with the value of the other vehicle. This means United Energy would own 100% of one vehicle rather than owning 50% of two vehicles.

Where the development of software is unique and for the sole benefit of only one business, no issue arises with regard to financial allocation of capital expenditure. Where the development of software is for the benefit of multiple business, each business will receive an asset on the basis of either their financial contribution to the total project expenditure or based on their intended use of the software e.g. user based. The basis for the allocation should be detailed in the business case.

5.8.1 Exception

Shared assets are allowed where there is an agreement covering separation[17]. E.g. assets subject to the Joint Business Agreement Term Sheet. Such assets include IT Services, IT Assets, IT Projects and accommodation fit-out capital expenditure.

5.9 Spares

United Energy keep two types of spares, Major Spares which are capitalised and Routine Spares which are expensed.

"Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment."[18]

The business units are responsible for maintaining adequate inventory control for all spares.

5.9.1 Major Spares

Major Spares are held to enable timely restoration of failed equipment that requires long procurement lead times. These are also sometimes referred to as strategic or critical spares. Examples include transformers, switchgear and HV circuit breakers. Major spare parts are carried at cost and are usually located at depots and zone substations. They:

[17] As per email from David Strang 24 December 2012 at 11:47am

[18] AASB116, paragraph 8

- have a low turnover
- typically have a serial number for unique identification and tracking in SAP
- are not a consumable i.e. are capitalised
- typically have a long lead delivery time or construction timeframe
- may never be used over the life of the plant
- are often held due to the adverse impact on the business if the spare part was unavailable.

Major spares are to be accounted for as part of property, plant and equipment. The major spares should be held in the asset register against the appropriate asset class for the spare. Major spares will not be held in an asset class of their own. E.g. transformer spares will be held against the transformer fixed asset class.

5.9.2 Routine Spares

Routine materials and supplies (consumables) - typically have a high turnover rate and are required at regular intervals. Typically these may be o-rings, gaskets, contacts, etc. These supplies are ordered by the Service Provider based on the inventory Min/Max trigger levels.

Due to the nature of routine materials and supplies these are classified for accounting purposes as inventory and expensed when consumed.

5.10 Depreciation

Depreciation is the systematic allocation of the cost of a tangible asset over its useful life.

Land is not depreciated as it is assumed to last indefinitely.

Buildings, machinery, equipment, furniture, fixtures, computers, cars, and trucks are examples of assets that will **last for more than one year**, but will not last indefinitely. During each accounting period a portion of the cost of these assets is being used up. The portion being used up is reported as depreciation expense on the income statement. In effect depreciation is the transfer of a portion of the asset's cost from the balance sheet to the income statement during each year of the asset's life.

A fundamental accounting concept is the matching principle. This principle requires a business to match expenses with related income in order to report a company's profitability during a specified time interval. For tangible assets this is done by depreciation.

This principle requires that the asset's cost be allocated to depreciation expense over the life of the asset. In effect the cost of the asset is divided up with some of the cost being reported on each of the income statements issued during the life of the asset. By assigning a portion of the asset's cost to various income statements, the business is matching a portion of the asset's cost with each period in which the asset is used.

5.11 Amortisation

Amortisation is the systematic allocation of the cost of an intangible asset over its useful life. In all other respects the explanation for amortisation is the same as the explanation for depreciation.

5.12 Depreciation / Amortisation Start & Finish

Depreciation and amortisation of an asset should commence when an asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. [19] Taking this date into account, **United Energy commences depreciation from the first day of the next month.**

Depreciation for major spares will commence from the first day of the next month that the spare is available for use. Although the major spare may not be in the location and condition necessary (installed) for use (or may never be used) the spare should be depreciated over time due to the risk of obsolesce or technology change, reflecting general deterioration which means there is a decline in future economic benefit.

Depreciation and amortisation does not cease when an asset becomes idle or removed from active use, unless the asset is fully depreciated.

Depreciation and amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is retired, subject to materiality.[20]

The amount of depreciation or amortisation charged against an asset in the month of disposal is based on the asset value date used on the asset retirement:

Asset value date used	**Amount of depreciation or amortisation charge in the month of disposal**
Between the 1st and the 15th day of the month	None
From the 16th day to the end of the month	A full month

5.13 Method of Depreciation and Amortisation

For tangible assets a variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. [21]

For intangible assets the amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used.[22]

United Energy always uses a straight line method of depreciation and amortisation for accounting purposes.

Where an asset's useful life is changed during the life of the asset, depreciation or amortisation is

[19] AASB 116, paragraph 55

[20] AASB 116, paragraph 55 & AASB 138 paragraph 97

[21] AASB 116, paragraph 62

[22] AASB 138, paragraph 97

then allocated using a straight line method based on the remaining life of the asset.

5.14 Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity[23].

The estimation of the useful life of the asset is a matter of ***judgement*** based on the experience of the entity with similar assets.[24] The useful life should be determined taking into account the following factors:

Physical life	This requires an estimate of the period of time the asset is expected to be used. It is usually an outer limit of an asset's effective life.
Engineering information	An analysis of engineering information and manufacturer's specification. The life of a new asset may differ from that achieved in the past due to advances in technology, different materials, intensity of use and the level of repairs and maintenance.
Industry norm	The useful life used by other similar business for the same asset obtained via sources such as the internet, regulatory information or Australian Taxation Office useful lives
Intensity of use	The intensity of use can have a direct impact on the asset's effective life.
Repairs and maintenance	The effective life of an asset may end when it is no longer economic to maintain it, even though it may be possible to do so.
Renewals	The estimate of when the asset will be wholly or substantially physically replaced.
Lease periods	Assets such as fixtures and fittings in leased premises should be depreciated over the shorter of their estimated useful life or the lease term.
Obsolescence	Can occur due to a number of factors including technical, regulatory or environmental

Normally the useful life adopted by an asset is the default useful life assigned against the fixed asset class the asset is held against in the fixed asset module of SAP.

The reason for the actual useful life adopted as the default useful life on an asset class must be documented and approved by the Fixed Asset Accountant's manager.

The useful life may differ from the default life for individual assets if, after taking into account the factors above, it is more appropriate to adopt a different useful life. Where a different useful life is adopted the reason for the useful life should be documented in the long text description field against the asset on the fixed asset register. The Fixed Asset Accountant is responsible for making such decisions. If the individual asset's life varies from the asset class default and the acquisition cost is:

- below $200k no further authorisation is required for the use of the different useful life
- above $200k the Fixed Asset Accountant should recommend the different useful life and is required to obtain authorisation from the Fixed Asset Accountant's manager.

[23] AASB 116, paragraph 6

[24] AASB116, paragraph 57

In some cases it is appropriate to adopt a remaining life to an asset. For example IT disk drives fit within an enterprise storage box/frame. Upon purchase of a frame, the life assigned to the drives held within the frame should be the same as the life of the frame. If additional disk drives, held within the same frame, are added at a later date, the life to assign to the additional drive should be that of the remaining life of the frame. Where a remaining life is adopted no authorisation for the adoption of the remaining life is required.

Some assets are subject to continuous improvement such as SAP software enhancements. Where this occurs, such improvements may adopt a useful life from the time of the improvement implementation recorded in the fixed asset register in calendar year annual blocks, rather than adopting a remaining life from the initial implementation.

Land and Work In Progress assets are not depreciated or amortised.

5.15 Retirement

Retiring an asset means removing it from United Energy's balance sheet i.e. derecognising the asset. This occurs upon disposal or when no future economic benefits are expected from its use or disposal.

Where an asset is no longer contributing future economic benefit to the business, the asset must be retired from the fixed asset register. This may be at a different time from the physical disposal of the asset for tangible assets. E.g. a motor vehicle will no longer be in use when it has been sent to auction but there may be a delay of weeks before the auction occurs, the proceeds from the auction are received and therefore before the retirement can be processed.

The most common type of retirement is the scrapping of a network asset (e.g. a pole) where no proceeds are received from its disposal. Other examples where an asset retirement is required include where assets are lost, stolen, damaged, sold, traded-in or removed from service with no intention to be reinstalled or written off as a result of an asset register review (refer Annex C).

Where an asset is removed from service and is cannibalised for spare parts, the asset is unlikely to contribute any material future economic benefit and so the asset should be retired.

Assets are not retired from the fixed asset register when their accounting written down value becomes zero. An asset that is fully depreciated and continues to be used in the business will be reported on the balance sheet at its cost along with its accumulated depreciation. No entry is required until the asset is disposed of through retirement, sale, etc.

The exception to this is for certain aged assets that are difficult to keep adequate inventory control over for accounting purposes. These are usually various low value assets grouped on the asset register under one asset number for each calendar year e.g. Miscellaneous tools and equipment. For these assets no details are kept on the fixed asset register so it will be unknown when each individual asset making up the original value is physically disposed. An annual review of the fixed asset register to identify these fully written down assets should occur and these assets retired from the fixed asset register (refer Annex C).

5.15.1 Sale

For an asset to be sold there must be proceeds. Where an asset can be sold, the amount of the proceeds requested from the purchaser of the asset should be determined taking into consideration the market value of the asset. The asking price must be inclusive of GST.

The accounting written down value is not the amount at which the asset should be sold. An asset can only be sold at the price that a buyer is prepared to pay for it. This may or may not be close to the accounting written down value.

All assets must be sold in an "as is condition" with no warranty/no guarantee/no support/buyer beware status.

In the absence of a readily available market value or the goods are not sold at arm's length then the sale must document the reasoning for the disposal price.

All sales must have a tax invoice or a recipient created tax invoice which states details of the asset. The Fixed Asset Accountant must be notified of the sale and provided with a copy of the tax invoice or the recipient created tax invoice.

Any expenses incurred in disposing of the asset should be deducted from the proceeds for the purposes of calculating the profit or loss on disposal of the asset.

Computers must have all licensed software and business information deleted before being sold or disposed. In the case of computers sold, the original operational software is to be re-installed on the machine. All trade marks or logos must be removed before handover of the asset to the buyer.

5.15.2 Other Proceeds

The Fixed Asset Accountant must be notified of the receipt of any proceeds for any retirement.

5.15.2.1 Scrap Proceeds

Under the Operational and Management Service Agreement (OMSA), any net proceeds received as a result of the disposal of United Energy assets belongs to United Energy. Net proceeds means the gross proceeds received less any costs incurred in disposing of the asset.

If the cost of disposal is greater than the gross proceeds, United Energy pay the Service Provider the difference. The difference is accounted for as opex expenditure.

Refer to the procurement policy to appoint an approved seller for scrap material.

Generally there are two types of proceeds received:

(a) Proceeds for the scrap metal value of many former miscellaneous network assets, accumulated into a skip for disposal. Once the skip is full, proceeds are received for the value of the scrap metal contained in the skip. As these proceeds are not for individually identifiable assets, the net proceeds will be accounted for as miscellaneous revenue.
(b) Proceeds for the scrap associated with the disposal of larger individually identifiable assets e.g. transformers in zone substations which contain metals and oil. In such cases the net proceeds received will be accounted for as proceeds received on the disposal of fixed assets.

All net proceeds are not to be accounted for as an offset against capital expenditure.

The AMI meter contracts allow scrap value to be kept by the contractors installing the AMI meters.

5.15.2.2 Public Lighting Proceeds

Existing public lighting is being retrofitted with sustainable public lighting by some councils. In such cases the AER annually review the distributors compensation allowed for the early retirement of the existing public lights. The compensation allowed by the AER is the proceeds on the retirement of the fixed asset.

5.15.3 Trade in

The Fixed Asset Accountant must be notified and provided with all support documentation when any asset(s) is traded in.

Any value attributed to an asset on trade in will constitute proceeds on disposal. An accounting journal will need to be processed which increases the value of the new asset.

The asset being traded in will be retired from the fixed asset register with the trade in value creating a profit or loss dependant on the written down value.

All trade in transactions must have a tax invoice or a recipient created tax invoice which states details of the asset. The asking price must be inclusive of GST.

5.16 Authorisation of the retirement of an asset

Assets held in the fixed asset registers are retired by a number of different ways.

Refer Annex A which sets out the various processes applicable to retirement of the different classes of assets.

5.17 Fixed Assets Registers

United Energy operates three fixed assets registers. These are:

a) Accounting
b) Federal Tax
c) Regulatory

The accounting and tax fixed asset registers are held in SAP.

5.17.1 Accounting Fixed Asset Register

Expenditure is capitalised in order to achieve agreed business outcomes. Assets lives are to be determined with regard to the expected effective life of the assets refer section 5.14 *Useful Life*. All assets are depreciated on a straight line basis.

5.17.2 Tax Fixed Asset Register

All items are to be capitalised on the same basis as accounting with the following exceptions:

a) All items in United Energy will be depreciated using the diminishing value method of depreciation where allowed. For new assets this is 200% of the depreciation rate based on the effective life.
b) Where legislation prescribes an effective life or a set depreciation method.
c) Any items replacing an existing asset will be claimed as a repair to the extent that it is not an

improvement or functionally different to the asset being replaced. These assets must be expended and transferred from work-in-progress within the financial year otherwise they will be capitalised as additions to the tax fixed asset register.

d) The value of the In kind contribution for assets is initially added to the tax fixed asset register but is reversed out twice yearly in December and June. This means the value of in-kind assets are not added to the tax fixed asset register.
e) Certain assets may need to be allocated to certain classes for depreciation for example low value assets or assets which form part of a project pool relating to a specific project.
f) If it is not clear how an asset should be depreciated for tax purposes this asset should be referred to the Tax Manager.

5.17.3 Regulatory Fixed Asset Register

All assets capitalised for accounting should be capitalised to the regulatory fixed assets register on a straight line basis except for the following:

a) In kind assets are not capitalised
b) Customer contributions reduce the value of the assets added
c) The value removed from the regulatory fixed asset register for asset retirements is only the value of proceeds received from the sale of assets.

The regulatory fixed asset register is not held in SAP. The information captured for accounting purposes on additions and disposals is used to complete the Excel spread sheets used to determine the regulatory fixed asset values.

6 Related policies/standards/legislation

The following policies, guidelines and manuals relate to the Fixed Asset Policy and can be read where they are specifically referred to within the Policy:

Reference	Document Name
AASB 5	Australian Accounting Standards Board Non-Current Assets Held for Sale and Discontinued Operation
AASB 102	Australian Accounting Standards Board Inventories
AASB 116	Australian Accounting Standards Board Property Plant and Equipment
AASB 117	Australian Accounting Standards Board Leases
AASB 119	Australian Accounting Standards Board Employee Benefits
AASB 123	Australian Accounting Standards Board Borrowing Costs
AASB 136	Australian Accounting Standards Board Impairment of Assets
AASB 137	Australian Accounting Standards Board Provisions Contingent Liabilities and Contingent Assets
AASB 138	Australian Accounting Standards Board Intangible Assets
AASB 1031	Australian Accounting Standards Board Materiality
ACC-002-POL	Account Reconciliations
ACC-004-POL	Posting Journals
ACC-005-POL	Materiality
ACC-006-POL	Reporting Close Policy
ACC-007-POL	Review of Financial Statements
ACC-008-POL	Consolidation Process
ACC-009-POL	Intra-Group transactions
ACC-010-POL	Identification and Recording Provisions and Accruals
ACC-072-PRO	Small Capex Procedure
ACC-073-PRO	Investment Management Procedure
APA-001-POL	Accounts Payable Policy
AUD-019-POL	Auditor Independence Policy
BUD-013-POL	Annual Budgeting Policy
COR-059-POL	Corporate Model Naming & Storing Procedure
DOA-003-POL	Delegation of Authority Policy
FOR-012-POL	Forecasting Policy
FAM-023-POL	MG Fixed Asset Policy
FAM-041-POL	Sustainable Public Lighting Reporting and Accounting

Reference	Document Name
FAM-042-PRO	Access Rights (Easements)
UE-MGH CI 001	Insurance Policy
INV-007-POL	Inventory Policy
PRO-004-POL	Procurement Policy
PRO-004-MAN	Procurement Manual
SOD-002-POL	Segregation of Duties Policy
UIG 1031	Urgent Issues Group Interpretation
	IT Project Financial Management Process

7 Implementation and Compliance

a) This policy will be implemented by Finance.

b) Any non-compliance under this policy must be reported to the Head of Financial Accounting & Controls.

c) There are a number of fixed asset controls in place to ensure the integrity of the fixed asset register. Refer Annex B.

d) There are a number of controls which effectively monitor the fixed asset register on a monthly, half yearly, annual basis and other periodic basis. Refer Annex C.

e) UE has the right to, at its absolute discretion, alter or modify this policy.

8 Document history

Version	Date	Amended By	Description of Changes
1	16-May-12		Original approved policy
2	30-Apr-14	Sue Edwards/Peter Ajani	Included procurement section Altered quarterly WIP review requirements Altered example of research phase Altered allocation of assets between entities Inserted useful life treatment for assets that are continuously improved Updated related policies/standards table Annex A– Inserted new section for ZABL retirements & minor changes to other sections

Annex A: Retirement Authorisation Process

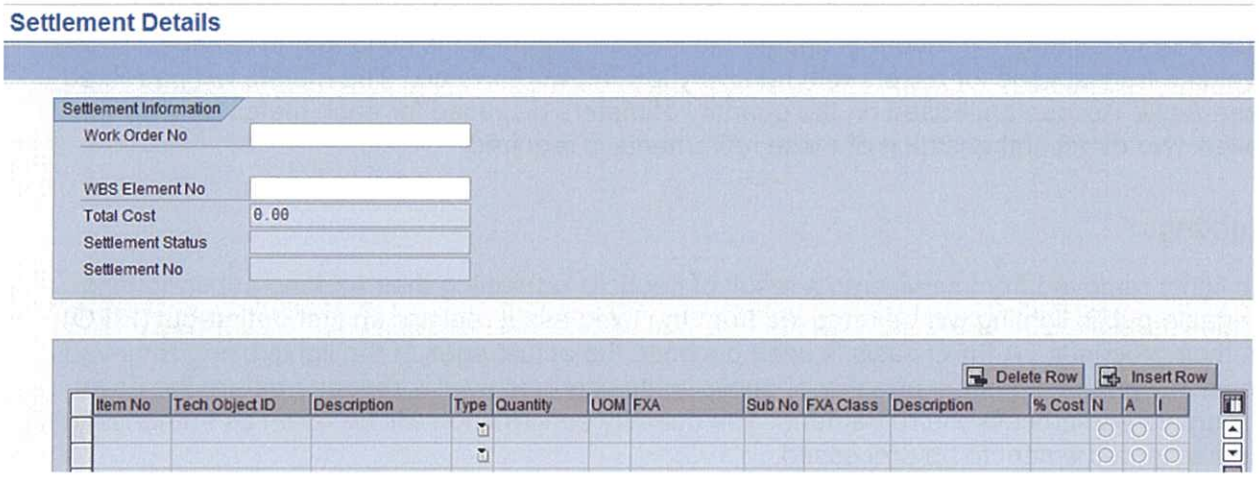
All retirements are subject to the DOA 003-POL Delegated Financial Authority Policy.

The following set outs the various retirement processes depending on the type or class of the asset.

Selected Network Assets retired using the SAP Settlement processes (ZUSDM001)

Most assets retired are network assets. The retirement of these assets is generally processed in SAP via the use of the ZUSDM001 *Settlement Details* program used by Service Providers to settle capital jobs from work-in-progress to final, depreciating assets.

In the 'Tech Object ID' field the SAP Plant Maintenance equipment record(s) is input representing the network asset worked on under the capital job. Against each row an action of N (new), A (abolish) or I (improve) is required. A fixed asset retirement will be triggered when an action of 'A' is input and the ZUSDM013 *Fixed Asset Write Offs from Settlement Screen Abolishments* program is run by the Fixed Asset Accountant.



The program has been written to contain a warning if the accounting written down value of the asset being abolished is greater than $50k.

The retirements processed via the ZUSDM013 program are reviewed for reasonableness by the Fixed Asset Accountant each month. Any material write off or assets retired that were recently capitalised and have a write off value greater than $1k are queried. Any incorrect retirements identified will be reversed by the Fixed Asset Accountant.

No direct authorisation of these ZUSDM013 retirements is required.

Selected Network Assets retired using the SAP Abolishment processes (ZABL)

In addition to the above, there are instances of network assets being retired that are not processed as part of the SAP settlement process. An example is distribution transformers. These may be removed from the network due to an upgrade. The removed transformer is sent to Stores to be reviewed to determine if it can be reused. It is therefore the personnel working in Stores that makes the abolishment decision so the personnel responsible for the upgrade works never finds out the status of the removed transformer to input into the ZUSDM001 screen.

SAP transaction ZABL *Fixed Assets Write Offs from Settlement Screen Abolishments* is used in UE SAP to process a financial write off, with the input of just the plant maintenance equipment number or functional location.

No direct authorisation of these ZABL retirements is required.

Meters

Network meters are not retired via the ZUSDM001 program.

In the Asset Owner Finance meeting held on 21st December 2009 the decision was made that all non AMI meters would not be retired when they are removed from service. This was because they are being depreciated to a maximum of the date the meter installation program is expected to be complete so for ease of administration and because the remaining life is very short, no retirements would be processed. These fixed assets will be removed from the fixed asset register when the program is complete.

Details of AMI meter retirements is sourced from the SAP Plant Maintenance module where the meter records are held. The meters have already been removed from service for various reasons when the status of the Plant Maintenance record is updated to indicate the meter is no longer in service. These are high volume transactions for assets with relatively low individual value. The meters will be retired by the Fixed Asset Accountant based on the quantity of meters disposed for each meter type, by the year installed. No direct authorisation of these retirements is required.

Public Lighting

The public lights removed from service as a result of councils retrofitting their existing public lighting with sustainable public lighting will be removed from the fixed asset register on first-in-first-out (FIFO) basis with their proceeds. A FIFO basis is used because the actual ages of the lights being removed are unknown. Confirmation of the quantity of public lights changed over is required before the Fixed Asset Accountant can process the retirement. The quantity confirmation will be taken as authorisation for the fixed asset retirement to be processed.

Retirements Arising From Fixed Asset Reviews

Retirement of fixed assets identified from reviews of the fixed asset register, refer Annex C, are required to be authorised by the Fixed Asset Accountant's manager. A list of the assets recommended for write off containing both the accounting and federal tax original acquisition cost and current written down values must be included in the detail provided by the Fixed Asset Accountant.

Motor vehicles

The Fleet and Inventory Officer is responsible for authorising all motor vehicle related disposals except where controlled by a service provider.

The Service Providers follow a historical process where the annual budget process identifies vehicles which may be nominated by them to be disposed. This budget is approved by United Energy. Once the annual budget is approved, this is the authorisation for the Service Provider to dispose of a United Energy vehicle. The net proceeds from the sale of the vehicle belong to United Energy.

Information Technology

Information Technology (IT) hardware asset disposals would normally be identified by United Energy's 3rd party service provider. They would normally make a recommendation to United Energy for the replacement or disposal of an item.

The authorisation for the retirement of an IT hardware asset is required from the Service Delivery Manager who will make a business decision on whether to proceed with the replacement or disposal.

Where the decision is made for an item to be replaced or disposed, it is the responsibility of the Service Delivery Manager to ensure:

a) All data has been erased from the hardware prior to disposal

b) The Configuration Management Database (CMDB) has been updated; and

c) The Fixed Asset Accountant has been notified of the disposal and supplied with sufficient information to ensure the item(s) disposed can be identified on the Fixed Asset Register and also informed of any proceeds attributable to the disposal.

The Fixed Asset Accountant is responsible for ensuring the assets are removed from the Fixed Asset Register after receiving written confirmation of the disposal from the Service Delivery Manager.

Other Assets

Any other asset not listed above requires the approval of the Fixed Asset Accountant's manager in order to be retired from the fixed asset register.

Annex B: Fixed Asset Controls

In SAP all network assets are capitalised to the SAP accounting fixed assets register. For Operational activities selected network assets are reflected in the plant maintenance equipment records. The SAP Plant Maintenance (PM) module contains hundreds of thousands of records for many, but not all, network assets. Each record in this module usually represents one physical network asset.

Controls for Allocation of Asset Class – Linked to PM Module

The PM module links into the fixed asset register to ensure that when the assets are recorded from an operation perspective the information flows into the fixed asset register with predefined business rules determining the correct allocation to asset classes and financial settlement.

To ensure capital is posted to the correct asset class a SAP program'*347 Validate In Service Equipment'*, was implemented. Under this 347 enhancement, table *ZUSDMTT004 – FXA Class Mapping Table – Equipment* has been established to provide some business rules to ensure a valid fixed asset number, plant maintenance category, plant maintenance class and plant maintenance object type these are assigned to all 'In Service' and 'Out of Service' plant maintenance equipment.

Below are the columns in the table with a sample of three rows:

Eq. Cat	Description	Object Type	Description	Equipment Class	Asset Class	Description	FXA Class 1 to 1 R/ship (Ind)	Inh Sup Obj	Active
S	Switchgear	SWITCH_DST	Switch Distribution	SWITCH	30142	Network Switchgear	X		X
T	Transformers	DIST_TRANS	Distrib. Transformer	TRANSFORMER_DIST	30141	Network SubsTransf.	X		X
Z	Domestic (Zsub)	COOLING	Cooling	COOLING_SYSTEM	32000	Network Buildings	X		X

Controls for Allocation of Asset Class – Not in PM Module

Where an asset is not part of the PM module most assets are created manually by the Fixed Asset Accountant based on information obtained from relevant personnel. The asset numbers created are manually input on the settlement rule on the capital project and capital is transferred from work-in-progress to the final, deprecating asset(s) created. No additional check is completed on these assets as it is considered that the Fixed Asset Accountant will correctly exercise their professional judgement to ensure the assets are capitalised to the correct fixed asset class.

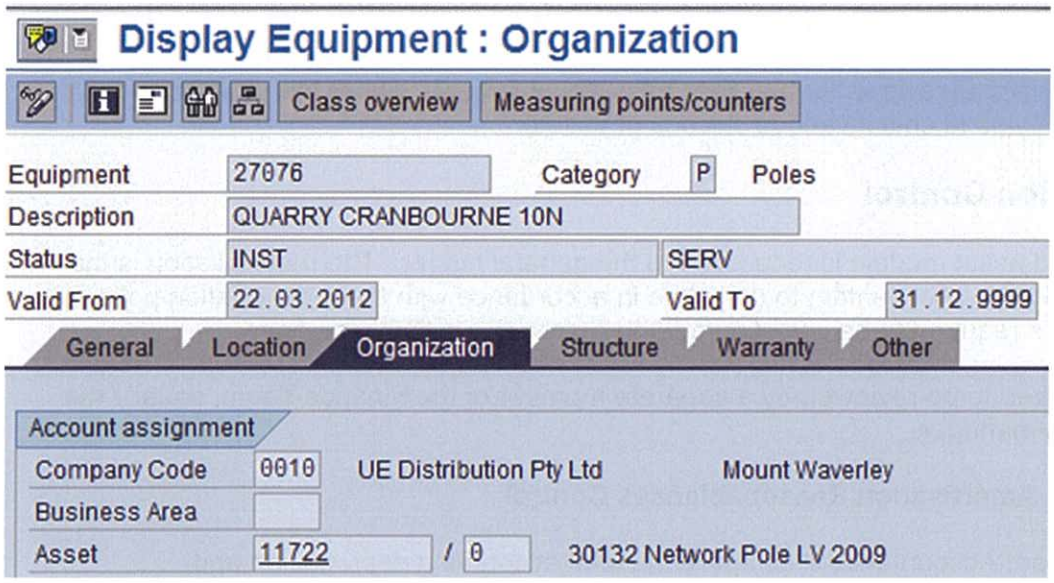
Stocktake

United Energy does not undertake periodical physical stocktakes of their tangible assets. For most of United Energy's tangible fixed assets this is impractical and would be extremely time consuming to complete. The risk of a material misstatement in the assets is low due to the nature of the assets being generally immobile and having very long lives.

An alternative to completing a physical stocktake and still obtaining some confirmation of the accuracy of the fixed asset records is to periodically reconcile the fixed asset records to sub systems that may exist for the different types of fixed assets.

The SAP Plant Maintenance (PM) module is used to link selected physical assets and the financial value for the assets.

Each record in the PM module usually represents one physical network asset. Each PM record has one field called the 'Asset' field which contains the fixed asset number which corresponds to the fixed asset register of SAP where the value of the asset is held.



Rolling reconciliations between these two modules should be completed on a cycle of five years or in accordance with the Fixed Asset Plant Maintenance Reconciliation plan.

Annex C: Monitoring Controls

The following activities are completed periodically that is monthly, half year and yearly to ensure the accuracy of the fixed asset registers. This process identifies errors and anomalies in a timely manner designed to ensure reporting packs, half yearly and annual accounts reflect accurate fixed asset information. There are additional reviews for half year and annual reviews. There are other reviews undertaken at varying intervals to check various classes of assets.

Monthly Reconciliation Control

Each month the SAP fixed asset module is reconciled to the general ledger. The reconciliation is the responsibility of the Fixed Asset Accountant to complete in accordance with the reconciliation policy. Any material variances are required to be investigated and resolved in a timely manner.

The reconciliation is required to be reviewed by a separate member of the Finance Team, usually the Fixed Asset Accountant's manager.

Monthly Depreciation & Amortisation Reasonableness Control

Each month the Fixed Asset Accountant will compare the total accounting depreciation and amortisation charged to the profit or loss against the prior months' charge. An increase or decrease in the charge per month in excess of 5% will require further investigation and the explanation documented in the Excel file used to complete this control.

Such variances are usually caused by significant additions, disposals, significant assets finishing their useful life or a change in the useful life of an asset or class of assets.

Half Yearly Depreciation & Amortisation Monitoring Control

At six monthly intervals a review of all assets on the fixed asset register is completed to ensure all assets that should be being depreciated are actually being depreciated in the accounting fixed asset module. The review is the responsibility of the Fixed Asset Accountant to complete.

These assets are identified by running SAP report ZFAL – *Fixed Asset List* for all assets and downloading the report into Excel. The download is reviewed and the following assets are removed from the list in the order below:

- All land and work-in-progress assets
- All assets with a written down value of zero
- All assets with a depreciation charge in the current year
- All assets with a depreciation start date of the next month from the date of the review

The remaining assets are assets with an accounting written down value greater than zero but have no depreciation charge in the current year when depreciation should be being charged.

A problem that exists within the fixed asset register is that new capital expenditure is allocated to very old existing assets. Typically this occurs against **underground cable** assets and **poles.** It can also occur on assets which have a depreciation charge of less than $1 per year.

1. **Underground cable**

   The capitalisation of new capital to old assets is occurring mainly as a result of the replacement of terminations of high voltage underground cable, required only on paper cable. There is a special procedure that makes the termination of high voltage underground cable safe. The last five meters of the cable is filled with oil and over time this drains away making the cable unsafe. Where this occurs the last five meters of cable needs to be replaced, often at both ends.

   A review is undertaken to specifically identify such assets. Once identified the assets are transferred from the non-depreciating asset to the current yearly grouped asset in the same asset class.

2. **Poles**

   The capitalisation of new capital to old assets is occurring mainly as a result of the replacement of pole top structures on the poles. A pole top structure would normally only be replaced where the pole is assessed to have a minimum of a 15 year remaining life.

   A review is undertaken to identify these assets. Once identified the assets life is amended so the new capital will depreciate over the next 15 years, being the minimum remaining life.

Annual Monitoring Control

Review of useful life and method

On an annual basis, at the end of each annual reporting period, the Fixed Asset Accountant will reassess the depreciation method, useful life and residual values assigned to the fixed assets.

Typically this review is completed by the Fixed Asset Accountant emailing the appropriate personnel to confirm the current useful lives and written down value of the assets and receiving a written reply on their opinion of the reasonableness of the life and written down values.

Review of fully depreciated assets

Certain aged assets are not monitored due to the volume and value of the asset. These are usually various low value assets grouped on the asset register under one asset number for each calendar year e.g. miscellaneous tools and equipment. For these assets minimal details are kept on the fixed asset register and there is no record of when the assets are physically disposed.

To address this issue, an annual review is undertaken by the Fixed Asset Accountant for these assets to identify fully written down assets. Once identified, these assets are reviewed and where appropriate these assets are retired from the fixed asset register, in accordance with section 5.15 and section 5.16.

Other Annual Reviews

Motor Vehicles

Motor vehicle asset are by their nature very mobile and have a regular change over cycle. A reconciliation of the records on the fixed asset register to Service Provider records and United Energy's records should be completed on an annual basis.

Fixture and Fitting in Leased Premises

Fixture and fittings in leased premises should contain the date of the end of the lease term in the 'Last Inventory On' field on the fixed asset module of SAP. Some leases are written with options for lease extensions. The date recorded in the 'Last Inventory On' field should be the date of the next option. The fixed asset register records for these assets should be reviewed on no less than an annual basis.

Other Periodic Reviews

Three year Reviews

The following types of assets are a valuable asset to United Energy but are quite immaterial compared to the total value of all of United Energy's tangible fixed assets:

- Office equipment
- Mobile Telephones
- Laptops and Desktops
- Printers
- Office Furniture

These assets should be reviewed at least once every three years. Unless an individual physical asset has a written down value greater than $50k, no stocktake of these items is required. For items with a written down value greater than $50k, confirmation that they are still in use in the business should be obtained by the Fixed Asset Accountant from relevant personnel.

Information Technology hardware assets should be reviewed at least once every three years by sending a list of the relevant fixed assets on the Fixed Asset Register to appropriate personnel and requesting their confirmation that the assets are still in use.

Five Year Reviews

Building assets should be reviewed at least once every five years.

Reconciliations between Plant Maintenance Module and the Fixed Asset Register should be completed on a cycle of five years or in accordance with the Fixed Asset Plant Maintenance Reconciliation plan.

Ten Years Reviews

Land assets should be reconciled to the latest United Energy's land tax assessment notice at least once every 10 years.