

Company Policy

FINANCE MANAGEMENT	Document No. : CECP2416 Amendment No. : 2 Approved By : CEO Approval Date : 16/08/2016 Review Date : 16/08/2019
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(Supersedes CEOP2416.Asset Capitalisation, Issue 2.)

CECP2416 ASSET CAPITALISATION

1.0 POLICY STATEMENT

The procedure applies to all areas of Essential Energy effective 1 July 2015 and supersedes Company Procedure (Finance Management) – Asset Capitalisation - CEOP2416 Issue 2.

This document is designed to ensure consistency and create one point of reference for the treatment of Capital expenditure in Essential Energy.

This procedure does not address:

- assets or maintenance in relation to Australian taxation laws; and
- methodology and process of allocation of overheads to capital projects.

2.0 PURPOSE

The Asset Capitalisation procedure aims to:

- achieve a consistent interpretation of capital expenditure across all areas of Essential Energy;
- align the accounting for capital expenditures for both management decision making (Commercial and Decision Support) and external financial reporting (Financial Control); and
- meet the requirements of NSW Treasury's Guidelines for Capitalisation of Expenditure in the NSW Public Sector (TPP 06-6), Australian equivalents to International Financial Reporting Standards (AIFRS), and Australian Accounting Standards Boards (AASB) Interpretations.

3.0 REFERENCES

Internal

Company Policy (Governance) – Investment Governance Framework – CECP0002.30
 Company Policy (Procurement & Logistics) – Procurement - CECP0009.04
 Company Policy (Financial Management) – Capital Contributions Accounting Policy – CECP2455
 Company Procedure (Governance) – Network Investment Governance– CEOP0002.82
 Company Procedure (Financial Management) – Investment Evaluation – CECP0002.32
 Company Procedure (Governance) – Non-System Investment Proposals to IGC – CECP0002.33
 Annexure A - Capitalisation Examples (general)
 Annexure B – Expenditure classification decision tree
 Note 1 of the Essential Energy Financial Statements (within the Annual Return)

External

Australian Accounting Standards 116 Property, Plant and Equipment and 138 Intangible Assets
 NSW Treasury's Guidelines for Capitalisation of Expenditure in the NSW Public Sector (TPP 06-6)

4.0 DEFINITIONS

Asset

A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. This Policy relates to fixed assets (property, plant and equipment) and intangible assets (eg software, easements and licences).

Document Control

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Complex Asset

An asset that consists of a number of major parts where each part is significant in relation to the cost of the asset, eg the electricity network

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Major Parts of Assets

The significant parts of a complex asset (above), eg the major parts of the network assets include substations, HV lines, and LV lines. Major parts of assets must be separately identified where they have useful lives materially different from the complex asset. Major parts of assets can be broken down into further asset parts (e.g. feeders, poles, wires, and switchgear).

Recordkeeping

Making and maintaining complete, accurate and reliable evidence of business transactions in the form of recorded information (Source: AS Records classification handbook – HB5031 – 2011).

Review Date

The review date displayed in the header of the document is the future date for review of a document. The default period is three years from the date of approval. However a review may be mandated at any time where a need is identified due to changes in legislation, organisational changes, restructures, occurrence of an incident or changes in technology or work practice.

5.0 KEY REQUIREMENTS

- Expenditure on assets can only be classified as capital expenditure where at least one of the following criteria applies:
 - The expenditure relates to the purchase, replacement, development or construction of an asset; and
 - It is subsequent enhancement expenditure that will increase the service capacity of the asset or extend the service life of the asset beyond that expected when the asset was originally installed (refer section 6.2.4).
- Maintenance expenditure (refer section 6.3) and expenditure on research and training is not to be capitalised.
- Non-System assets with a cost of less \$600 should not be capitalised (refer section 6.1)
- Assets should be initially recognised at their directly attributable cost (refer section 6.2)
- Borrowing costs should be capitalised for qualifying assets (refer section 6.2.2)
- Expected costs of decommissioning, dismantling or removing an asset at the end of its life should be provided for and capitalised at the time of commissioning where such costs are expected to be material (refer section 6.6).
- Guidelines given for judgemental areas should be followed in determining whether capitalisation is appropriate
- For intangible assets the following key requirements are also required:
 - An asset shall only be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to Essential Energy and the cost of the asset can be measured reliably; and
 - An intangible asset must be identifiable, which means it is capable of being separated or divided from Essential Energy and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether Essential Energy intends to do so **or** arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from Essential Energy or from other rights and obligations.

6.0 ACTIONS TO ACHIEVE IMPLEMENTATION OF THIS POLICY

6.1 Capitalisation threshold

Essential Energy has set a capitalisation threshold of \$600 for non-system assets. This means that all non-system capital asset expenditure on items with a cost of less than \$600 are to be expensed.

When applying the capitalisation threshold the costs of the assets or parts of an asset that form part of a system or complex asset (eg office furniture comprising desks, chairs etc) should be aggregated together. A project number must be assigned to the group of assets with expenditure in excess of \$600 to enable capitalisation. For clarity it is noted that the purchase of a number of similar items with an individual cost of less than \$600 each in one transaction does not qualify for capitalisation based on the higher total transaction value.

The Capitalisation threshold does not apply to network assets. If the asset expenditure relates to the network or network assets, then review of the criteria as set out in section 6.2 and 6.3 of this policy must be undertaken to determine whether the expense is operating or capital.

6.2 Asset recognition

Assets are initially measured at cost being the amount of cash or cash equivalent paid or the fair value of other consideration given to acquire the asset at the time of its acquisition or construction. The cost of a new asset purchase comprises:

- a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- 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; and
- c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located (where there is an obligation to do so). (refer section 6.6).

Examples of directly attributable costs are:

- costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;
- plant and material costs;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly; and
- professional fees.

Directly attributable borrowing costs are also capitalised where certain criteria are met (refer Paragraph 6.2.2).

6.2.1 *Assets constructed for own use*

Assets that are constructed by Essential Energy (using employees, third party contractors, or a combination of both) are capitalised.

These assets are typically network related, but can other self-constructed or self-developed assets.

The cost of these assets may include:

- directly purchased physical assets and associated incidental costs;
- labour and supervision costs up to the stage when the asset is ready for use in the location and condition intended by management;
- costs of design and technical assistance;
- internal and external plant hire costs;
- transfers from inventories;
- directly attributable overheads up to the stage when the asset is ready for use in the location and condition intended by management; and
- borrowing costs associated with acquisition, construction or production of a qualifying asset.

6.2.2 *Capitalisation of borrowing costs to a qualifying asset*

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Assets that are ready for their intended use or sale when acquired are not qualifying assets. A substantial period is considered to be at least 12 months.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Essential Energy will apply this to substantial projects (exceeding \$10 million). Capitalisation of borrowing costs will commence when the capital expenditure

commences and ends once the asset is ready for its intended use and will be suspended when active development is suspended for an extended period.

The following transactions are recognised as borrowing costs where they are directly attributable to a qualifying asset:

- interest paid or payable on interest bearing loans;
- loan guarantee fee paid to the NSW government for the guarantee of loans;
- the amounts of amortisation of discounts and premiums on interest bearing loans;
- discounts applied to financial liabilities; and
- net losses on valuations of interest rate futures classified as financial instrument 'loans and receivables'.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

6.2.3 *Asset replacement*

All expenditure relating to the replacement of an asset (including part of an asset) is capitalised to the extent that it is probable that future economic benefits associated with the item will flow to the entity and the cost can be reliably measured.

Day to day servicing costs are not to be capitalised.

The assessment of whether expenditure is capital is performed at the major asset parts level where the useful life of the asset is materially different to the complex asset.

Refer to examples in Annexure A of this procedure.

6.2.3.1 *Derecognition of replaced assets*

Where an asset is replaced or is no longer providing economic benefit it should be written off or disposed of in the accounting records, i.e. its carrying value (net book value) is derecognised. Essential Energy does not have detailed accounting records of all individual assets and parts of assets. Where the replaced asset cannot be identified an estimate will be made of the value of the replaced asset, with reference to the current replacement cost, past valuation and impairment adjustments, and the estimated age of the asset. This may be performed on a portfolio basis for major types of assets or asset parts (eg cross-arms), and may be performed on a periodic basis.

6.2.4 *Asset enhancement*

Asset related expenditure is capitalised when and only when there is an increase or improvement to a component asset's current:

- service capacity;
- service quality; or
- useful life.

Asset enhancement includes Augmentation and Refurbishment.

Refer to further examples in Annexure A of this procedure.

Examples of asset related expenditure that would not be classified as asset enhancement, and is therefore operating expenditure includes:

- aesthetic improvements or beautification projects (eg painting); and

- general Defects i.e. replacing items which are not considered to be an asset or part of an asset, eg activity to permit the useful life of the asset or parts of the asset be realised.

In all cases refurbishment activity, which qualifies for capitalisation, relates to specifically planned and approved programs of work undertaken to improve performance, reliability and longevity of the asset. Refurbishment programs may be undertaken on assets where defects have or have not been identified. This is distinguished from day-to-day servicing costs.

6.2.5 *Gifted assets*

The recognition and measurement of gifted assets (ie capital contributions) is covered in Company Policy (Financial Management) – Capital Contributions Accounting Policy – CECP2455.

6.2.6 *Asset disposals*

In the context of this policy a disposal, write-off, or write down is broadly defined as occurring when an asset (or major part of an asset) is identified as no longer providing economic benefit to the organisation when it has been replaced, damaged and not economical to repair, is no longer in use, is no longer used in the way it was initially intended and not expected to be used in the foreseeable future, or the asset is surplus to requirements.

Such assets may be disposed eg. sold, scrapped, or donated, written off where they have been destroyed or cannot be accounted for, or written down where the assets are not physically disposed, but simply no longer provide sufficient future economic benefit. Proceeds may be earned on the sale of assets or scrap. This applies to assets that were funded by Essential Energy as well as customer funded or gifted assets.

The book value of any assets that have been disposed of or written-off is required to be accounted for as a reduction of the value of assets in the accounting records. Financial Accounting will require information from the business on the asset disposed of or written off to enable the asset to be identified in the accounting records. Where this is not practical (due to inadequate data, systems or processes) an estimate of the age and book value of the asset as well as proceeds from the disposal of the asset should be provided to Financial Accounting (email to Financial_Accounting@essentialenergy.com.au). The proceeds received from the disposal of the asset are to be accounted for as proceeds on sale of assets.

6.3 **Maintenance**

Maintenance expenditure, being day-to-day servicing costs are not capitalised. It is treated as an expense for accounting purposes. Maintenance expenditure will normally have the following characteristics:

- periodic, regular, and on-going;
- day to day servicing costs;
- required to ensure asset remains operational;
- required to ensure the achievement of the asset's pre-determined service capacity and quality;
- does not result in the replacement or enhancement of an asset; and
- required to achieve the asset's pre-determined useful life (ie there is no increase to the asset's original useful life).

Refer to examples in Annexure A of this policy.

Examples of maintenance expenditure include:

- ad hoc painting of a building;
- electrical and plumbing repairs;

- pole ground line inspection and treatment;
- clearing of vegetation under lines (eg tree clearing and weed control);
- replacement of “consumable items” in street lights (eg globes, starters, diffusers, and gaskets); and
- filtering oil in a power transformer in a zone substation.

6.3.1 *Specific guidelines for the classification of maintenance & Operating Expenditure (“OPEX”) in relation to work completed on the distribution System*

- Routine maintenance is of a regular and on-going nature and should be treated as OPEX.
- Pole ground and line inspection and treatment, tree clearing and weed control, line re-tensioning is operating expenditure.
- Replacement or repair of “consumable items” (eg globes, starters, diffusers, and gaskets) in street lights.
- The rectification of all other isolated individual defects (including replacing or repairing sub component (minor) parts, eg insular replacement, guy and earthing defects, etc) on the network and which are not associated with any pole/conductor/cross arm or switchgear replacement are to be treated as OPEX.

6.4 Information technology assets

All IT asset expenditure, whether expended for operational use, as part of research and development (R&D) projects, or for any other purpose will be subject to the capitalisation tests described in this policy.

6.4.1 *Research phase of internally generated intangible assets*

No intangible asset arising from research (or from the research phase of an internal project) is capitalised. Expenditure on research (or on the research phase of an internal project) is accounted for as operating expenditure when it is incurred.

6.4.2 *Development phase of internally generated intangible assets*

Once an internal project has moved to the development phase, any directly attributable expenditure incurred may be capitalised as an intangible asset provided the asset recognition criteria in this policy are satisfied (refer section 6.8.3).

6.5 Spares for plant and equipment

An assessment is required to be made, prior to recognition, as to whether a spare part is considered major or not.

Spare parts and servicing equipment are usually carried as inventory and recognised in profit and loss as consumed. However major spare parts and stand-by equipment qualify as property, plant and equipment where they are expected to be used during more than one period.

Spare parts that are for a particular asset, or class of assets, and which would become redundant if that asset or class was retired or discontinued, are to be included in the cost of the asset or class to which the asset relates. Where material the depreciable amount of spares must be allocated over the useful life of the asset or the class. This is because spares that can be used only in connection with a particular non-current asset do not have useful lives of their own.

Spares are distinguished from separate components of an asset that have their own useful lives. Spares can also be distinguished from stores and supplies that would generally be consumed on an ongoing basis and are disclosed as inventories.

6.6 Dismantling, removing and restoring the item

The purchase, construction or use of an asset, may result in Essential Energy assuming or incurring a contractual, statutory or constructive obligation to dismantle and remove the item or restore the site to certain minimum standards or both, at the end of the asset's life. Where these costs are recognised as a liability these costs are to be capitalised and depreciated.

As these costs will not become payable until some future date and there is likely to be uncertainty about the dollar value, the best estimate of the obligations will be recorded. Accordingly an assessment is to be made, prior to capitalisation, as to whether an obligation exists and the amount estimated to be paid, discounted to the date of recognition (which is to be capitalised). The related credit will be recognised as a provision.

In assessing whether a restoration provision is recognised (and the corresponding restoration cost capitalised), we must consider whether:

- there is an obligation (legal or other) on acquisition or due to ongoing use;
- it can be reliably measured; and
- it is material in net present value terms.

The lack of a legal obligation is not sufficient to prevent the need to recognise the cost as there may still be a constructive obligation.

Examples of provisions for restoration / remediation costs include;

- penalties or clean-up costs for unlawful environmental damage; and
- decommissioning costs of an installation to the extent Essential Energy is obliged to rectify damage already caused.

6.7 Recording of assets

6.7.1 *Work in Progress (WIP) – projects*

Costs relating to assets are to be recorded under 'Project' numbers, other than complete non-system assets purchased on a single purchase order, eg tools.

When expenditure is incurred on a project asset, the asset will be initially recorded in an appropriate WIP ledger account. WIP is included in the property, plant and equipment and intangible asset disclosure in the Balance Sheet and is disclosed separately in the notes to the financial statements.

6.7.2 *WIP capitalisation*

When the asset is first available for use the project should be marked as complete to enable capitalisation to an appropriate asset class in the asset register (based on the project information) and allow depreciation to commence.

In the case of a complex asset that requires installation in successive stages, it will be deemed to be ready for use after installation has been completed to a stage where service or saleable product can be obtained.

6.7.3 Depreciation

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The depreciation method applied to an asset class shall be reviewed at least at the end of each annual reporting period and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

6.7.4 Purchasing – 'non- project' assets

Non-project assets are generally purchased through the PeopleSoft purchasing module.

When expenditure is incurred on a non-project asset through the PeopleSoft purchasing module, the asset will initially be recorded in an appropriate capital clearing account and subsequently added to fixed asset register via an automated asset addition process. The purchase category and associated asset profile chosen will determine the depreciation method. Assets with an individual value of under \$600 or operating expenditure should not be allocated to an asset category at the time of requisition or order as these are not to be capitalised (Refer Section 6.1).

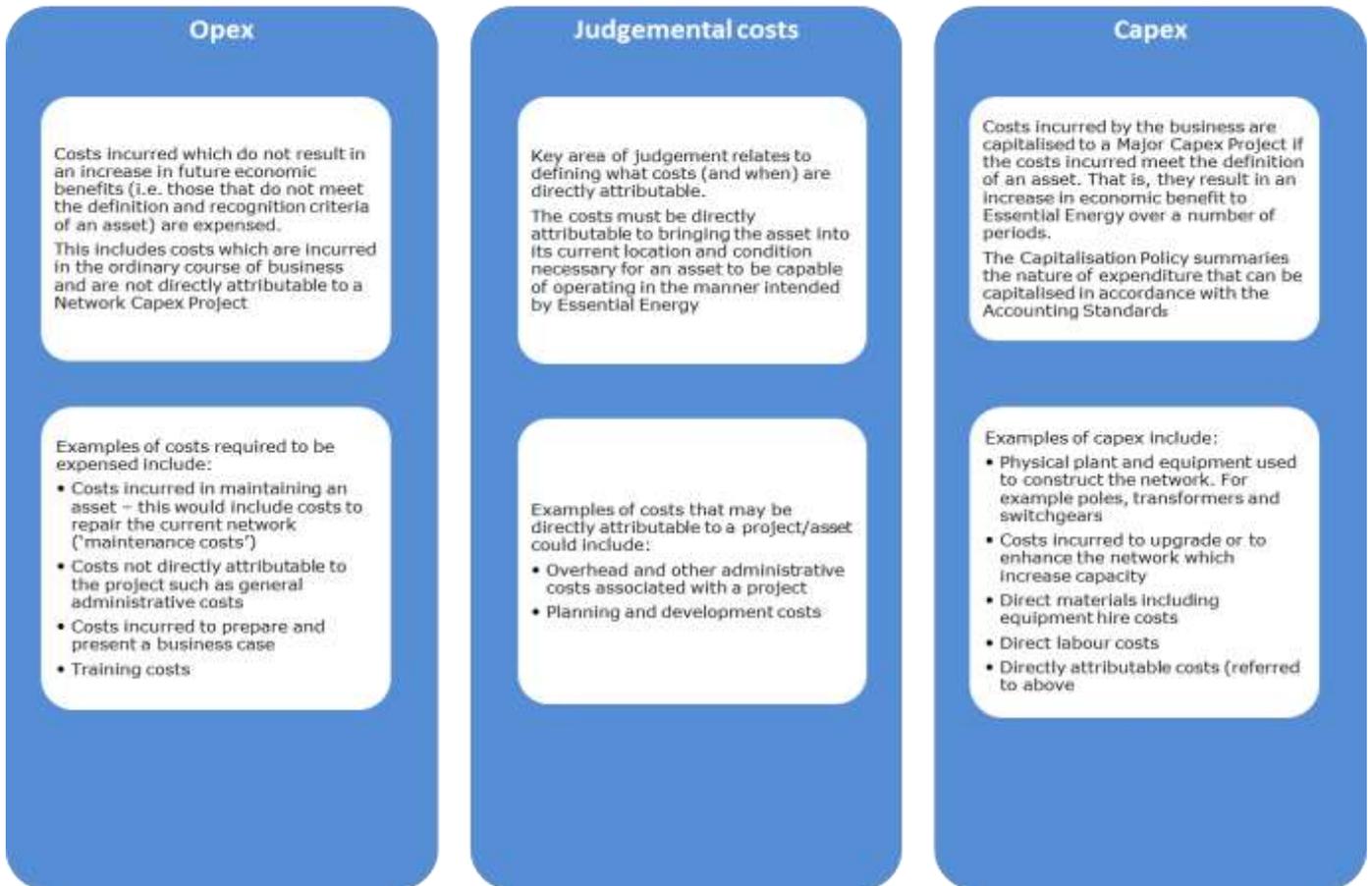
6.8 Capital and operating expenditure judgemental areas

For network and non-system capital expenditure ('capex') projects, the capitalisation of physical property, plant and equipment and direct labour costs as an asset is relatively straight forward. However, there are various other operating expenditure costs ('opex') that may or may not meet the criteria of this policy to be capitalised as part of a network (or non-system) capex project.

Section 6.2 requires that only costs 'directly attributable' to the asset can be capitalised. Both the stage of the capex project and the type of cost have a bearing on whether or not an operating cost is considered 'directly attributable' and therefore whether it can be capitalised. *For example*, costs arising during the initial planning and development phase that relate to planning activities before the formulation of a 'project' or the development of a business case are required to be expensed. Such costs may include management time in developing a business case, and the research and evaluation of alternatives in a feasibility study. However, once activity relates to a specific project and the decision to go ahead with the project has been made (eg Board approval, Capex Committee approval) and the project moves to the implementation phase any directly attributable expenditure incurred is eligible to be capitalised to the project.

In considering whether a project has approval, it should be noted that Essential Energy's annual network capital expenditure program is conducted in accordance with the overarching Board approved Portfolio Investment Plan. It would be expected that the majority of costs associated with network capex projects under this program of work would be considered directly attributable. The concept of directly attributable is discussed further in the diagram below, highlighting that at either end of the spectrum the capitalisation decision is relatively straight forward, but that there is also a relatively large group of costs in the judgemental category that require consideration on a project by project basis in many instances.

6.8.1 Guidance on judgemental areas related to self-constructed physical assets



6.8.2 Guidance for projects included in Network Asset Management Plan

The more judgemental areas where the correct accounting treatment requires careful consideration are noted in the table below.

Judgemental costs	Key consideration
Planning and Development costs	<p>Planning and development costs in the context of a network capex project may include costs such as those associated with determining most the effective way to implement the capital project, advisor costs in considering alternative solutions, network project management team time (refer also discussion below).</p> <p>Given that the network capex projects represent individual projects that are being delivered under the overarching Board and Regulator approved network capex works it would be expected that the majority of planning and development costs would be considered to be directly attributable to the individual projects as they would be considered to be directly attributable to preparing the asset for use.</p>
Divisional overheads and other administrative costs	<p>Overheads are allocated to network capex projects based on an overhead allocation rate based on the level of budgeted costs that directly relate to projects. The determination of which activities and therefore which costs are included in the bucket of overheads to be allocated is highly judgemental. It is often the case that various business unit costs such as costs associated with Network support, Network Compliance and Connections, Systems data and development are a mix of costs directly attributable to network capex projects as well as simply opex. This needs to be reflected in the determination of the overhead allocation rate.</p> <p>Difficulties can therefore arise in determining whether administrative and other general overhead costs can be directly attributed to the project. However it is generally useful to consider whether the costs in question could have been avoided had the entity not undertaken the project. If they have only been incurred as a result of the project then this would support capitalising those costs to the project.</p>
Project Management	<p>Project management typically involves the specific project organisation, risk management, planning, monitoring, governance, budgeting, communicating, staffing, and quality assurance. The majority of such project management activities in the execution of the network capex project relate to management and execution of the project and will be considered directly attributable costs that would have been avoided if the Major Capex Project had not been undertaken.</p> <p>These are therefore costs that would be considered directly incremental as a result of the construction of the specific asset and would generally be eligible for capitalisation.</p>

6.8.3 The distinction between the different phases of an IT project is important in determining whether certain costs may be eligible for capitalisation

6.8.3.1 Introduction

The following section analyses the more judgemental areas of Essential Energy's accounting for the capitalisation of IT project expenditure as well as the capitalisation of IT costs associated with network capex projects where the project involves research activity.

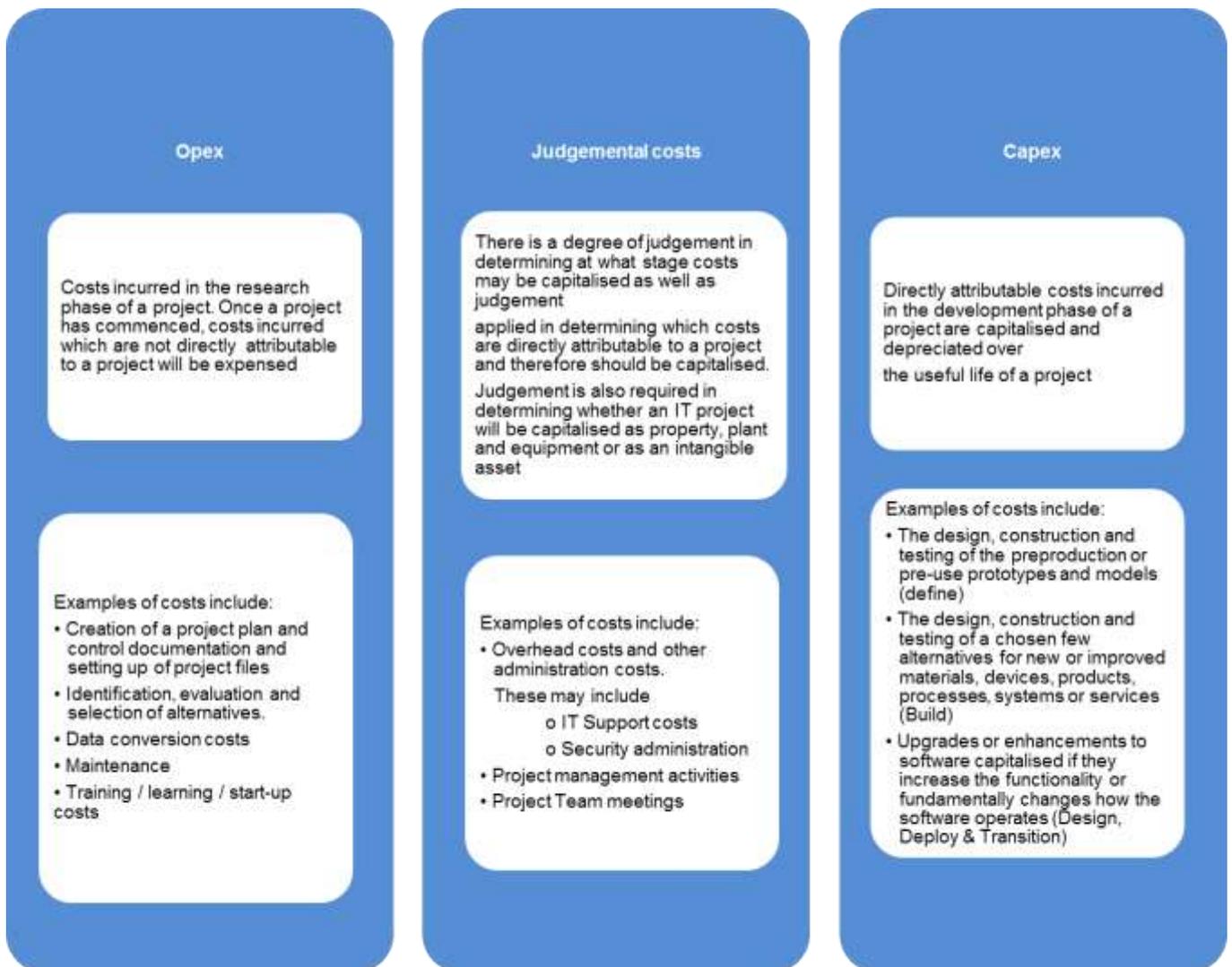
6.8.3.2 Judgemental areas

At either end of the spectrum the capitalisation decision is relatively straight forward, but there is also a relatively large group of costs that fall in the judgemental category that require consideration on a project by project basis. In relation to IT Projects the more judgemental area often relates to the research phase. Costs arising during the initial research phase that relate to activities before a

final decision to go ahead with the internal IT project has been made (eg Board approval, Capex Committee approval) are required to be expensed.

Examples include time developing business cases and the research and evaluation of alternatives in a feasibility study (concept and feasibility) of an internal IT project are required to be expensed under this policy. Once an internal project has moved to the implementation or development phase (ie IT planning, design, build, test, closure phases) any directly attributable expenditure incurred may be capitalised as an intangible asset provided the asset recognition criteria in this policy are satisfied.

6.8.4 IT costs judgemental areas summary guide:



6.8.5 Guidance on judgemental IT intangible capex project costs

Judgemental costs	Key consideration
Overheads and other administration costs	<p>Selling, administrative and other general overhead expenditure are not components of the cost of an internally generated intangible asset (and therefore must be expensed) unless this expenditure can be directly attributed to preparing the asset for use (in which case it may be capitalised as part of the cost of the intangible asset). Difficulties can arise in determining whether administrative and other general overhead costs can be directly attributed to preparing the asset for use. However, it is generally useful to consider whether the costs in question could have been avoided had the entity not engaged in the development activities.</p>
Project management activities	<p>Project management typically involves the project organisation, risk management, planning, monitoring, governance, budgeting, communicating, staffing, and quality assurance.</p> <p>Management activities such as the direct review of coding, resolving computer design issues, and direct monitoring of the software testing are consistent with the characteristics of the application development stage and should be capitalised. In order for the costs associated with project management activities to be capitalised the activities in question must:</p> <ul style="list-style-type: none"> • relate to a specific project; and • relate to specific development activities (such as those set out in 6.8.3 above) rather than the overall management of the team or project. <p>An assessment of management activities is required to determine if they are directly attributable to the construction of an intangible asset as a basis for capitalisation.</p>
Project Team Meetings	<p>The classification of costs associated with time spent attending general “non project related” internal meetings follows the principles outlined above, in particular the guidelines outlined in relation to Project Management Activities and Overheads and Other Administration Costs.</p> <p>Where the meetings are held in relation to a specific project and are more in the nature of working party meetings as evidenced by the fact that decisions are made at the meeting in relation to specific design decisions, resolving technical issues and the review of specific software testing the nature of these activities is that of development activities and the time costs should be capitalised.</p> <p>Effectively in order to capitalise time costs the objective of the meeting must be to make decisions or resolve issues in relation to activities in the design, build and development phase set out in 6.8.3 which qualify for capitalisation.</p>

7.0 AUTHORITIES AND RESPONSIBILITIES

Chief Executive Officer has the authority and is responsible for approving this policy.

Chief Financial Officer is responsible for ensuring that the policy remains in compliance with relevant accounting standards.

Financial Controller is responsible for:

- ensuring that the policy is up to date and in line with accounting standards; and
- assists the Commercial Managers with the interpretation of the policy in specific and material cases.

Financial Accounting Manager is responsible for coordinating the periodic review and update of this policy and validating the policy content.

Financial Accounting Team has responsibility for WIP Capitalisation (when presented for capitalisation), review of the capex clearing account and review of depreciation charges.

Commercial Managers are responsible for:

- calculating and processing the capitalisation of borrowing costs where required, monitoring aged work in progress and processing write offs of work in progress;
- advise business stakeholders on the interpretation of the policy;
- regularly sweep standing capital projects to projects to allow for capitalisation; and
- provide gifted asset information to the Financial Accounting Team for capitalisation (refer to the Capital Contributions Accounting Policy).

General Managers are responsible for;

- ensuring that the policy is understood and adhered to within their areas of responsibility;
- seeking guidance from their finance contact (Commercial Manager) where clarity is required;
- provide adequate and regular information on replaced assets to the Financial Accounting Team to enable de-recognition of the original replaced assets within the financial records; and
- responsible for obtaining the appropriate delegated authority for de-recognition of replaced assets.

All Staff with responsibility for purchasing, project set up, project accounting, and capital expenditure accounting are responsible for;

- understanding the capitalisation requirements of this policy; and
- depending on their role, allocating expenditure and/or projects between operational and capital expenditure in line with the policy's requirements and guidelines.

8.0 DOCUMENT CONTROL

Content Coordinator : Financial Controller

Distribution Coordinator : GRC Process Coordinator

Annexure A - Capitalisation Examples (general)

The following is a high level guide only and is based on the policy principles being met. Seek advice from your finance contact when in doubt.

Cost Item Description	Capitalise	
	Yes	No
New Asset Purchase		
Buildings	✓	
Communication bearer systems	✓	
Communications	✓	
Computer hardware – including laptops	✓	
Concrete pole line	✓	
Customer meter	✓	
Easements acquired	✓	
Fleet and fleet (heavy)	✓	
Fencing (new construction or replacement of the majority)	✓	
Furniture and fittings	✓	
Generation	✓	
Generation switchyard	✓	
High or low voltage powerline	✓	
Individual assets costing less than \$600 (non-system related)		x
IT hardware	✓	
IT software	✓	
Land	✓	
Leasehold improvements which become part of the leased property	✓	
Motor vehicle and initial fit out	✓	
Office equipment purchase greater than \$600	✓	
Overhead line	✓	
Pole substation	✓	
Pole transformer	✓	
Radio equipment/mobile phones	✓	
Radio site upgrades	✓	
SCADA	✓	
Steel pole line	✓	
Street lighting overhead	✓	
Street lighting underground	✓	
Sub transmission substation	✓	
Substation, transformers and transformer bays purchases	✓	
SWER line	✓	

Cost Item Description	Capitalise	
	Yes	No
Telephone installations	✓	
Tools and test equipment (over \$600)	✓	
Tower line	✓	
Transformers	✓	
Underground cable	✓	
Easement purchase	✓	
Zone substation purchase	✓	
Asset Constructed for Own Use		
Costs of design and technical assistance	✓	
Directly attributable overheads	✓	
Directly purchased physical assets and associated incidental costs	✓	
Internal and external plant hire costs	✓	
Labour and supervision costs	✓	
Transfers from inventories	✓	
Asset Replacement¹		
Air break switch replacement	✓	
Conductor replacement	✓	
Disposal costs of replaced asset		x
Feeder circuit breaker replacement	✓	
HV switching station replacement	✓	
Pole and/or crossarm replacement	✓	
Power transformer replacement in zone substation	✓	
Protection relay replacement	✓	
Replacement of full street lighting assembly (ie not only just consumables)	✓	
Service cable replacement	✓	
Transformer replacement	✓	
Voltage regulator replacement	✓	
Zone substation replacement	✓	
Asset Enhancement		
Aesthetic improvements or beautification projects (eg painting)		x
Balancing loads on feeders resulting in improved voltage balance and tighter control of voltage received by customers (improved service quality)	✓	
Converting an old, undersized overhead conductor to a new, larger capacity overhead or underground feeder	✓	

¹ The asset being replaced is to be accounted for as a disposal unless it is at the end of its useful life

Cost Item Description	Capitalise	
	Yes	No
Installation of power factor correction units (decreases load on networks, decreases losses and increases and improves capacity of supply and quality of voltage levels received by customers)	✓	
Major upgrade and expansion of zone substation	✓	
Measurable quality improvement (eg health or safety improvements)	✓	
Modification, improvement or upgrading of the functionality of an existing IT asset	✓	
Refurbishment of distribution transformers (including refurbishment of earthing systems)	✓	
Upgrading an old re-closer to a more modern device	✓	
Upgrading capacity of feeder exit cables out of zone substations	✓	
Pole reinstatement (pole nailing)	✓	
Maintenance		
Repainting of a building		x
Replacement of part of a building's materials, eg roof or asphalt		x
Broken tie wire replacement		x
Carrying out annual "pre bush fire season" aerial patrol		x
Clearing of vegetation under lines (eg tree clearing and weed control)		x
Electrical and plumbing repairs		x
Filtering or changing oil in a power transformer in a zone substation		x
Fitting a splice over a broken strand		x
Hardware and Software Maintenance		x
Performing a "thermoscan" survey		x
Periodic testing of protection equipment		x
Pole ground line inspection and treatment		x
Repairs to customer metering equipment		x
Replacement or repair of "consumable items" (eg globes, starters, diffusers, and gaskets) in street lights		x
Replacement or repair of individual minor parts/ components (eg insulator replacement, guy and earthing defects, etc)		x
Re-tension of a line		x

Annexure B – Expenditure classification decision tree

