

PROCEDURE

COST ALLOCATION METHODOLOGY

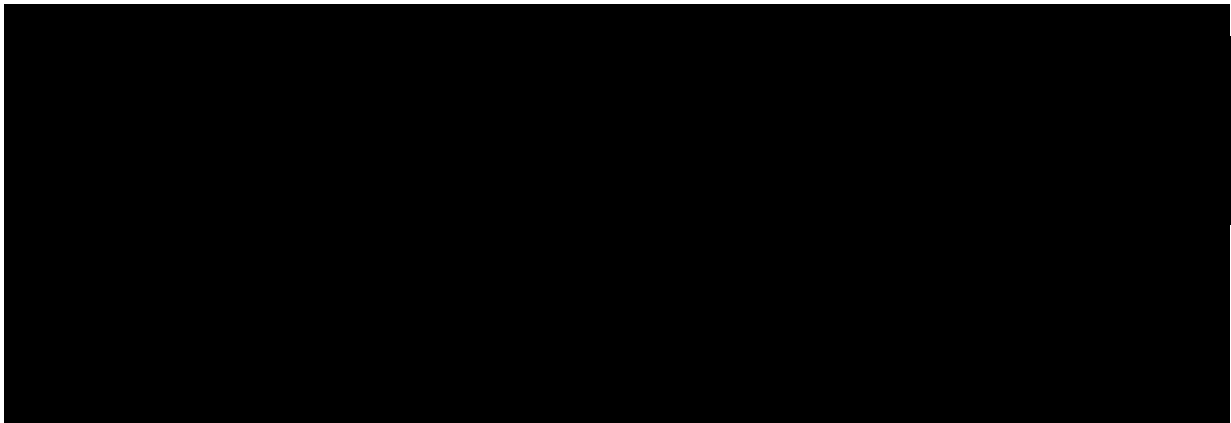
JEM FIN PR 0002

Revision Number: 2.0

Revision Date: 5/02/2019

AUTHORISATION

REVIEWED BY

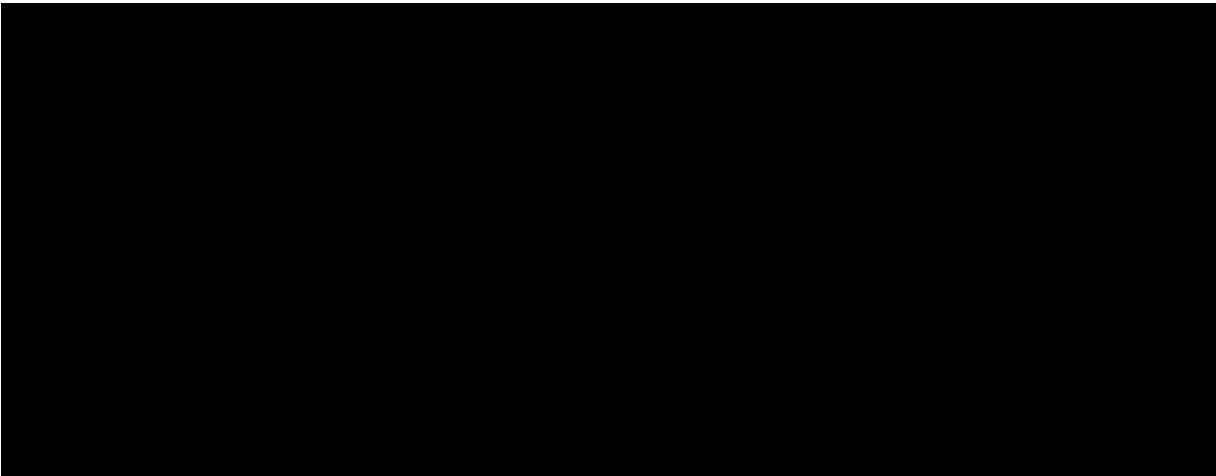


INTERNAL

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DOCUMENT HISTORY

Revision	Date	Author	Description of Changes
			

OWNING FUNCTIONAL GROUP & DEPARTMENT / TEAM

Finance : Financial Planning and Analysis : Planning and Analysis

REVIEW DETAILS

Review Period: Review Date + 2 years

Next Review Due: January 2021

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1 INTRODUCTION

1.1 PURPOSE

Jemena is the branded name of a group of businesses owned and operated by SGSP (Australia) Assets Pty Ltd (**SPSGAA**). Jemena Asset Management Pty Ltd (**JAM**) is a subsidiary within the SPSGAA group of businesses (**Jemena Group**) that has a function of providing services and collecting costs on behalf of the Jemena Group of entities.

The purpose of this Jemena Group Cost Allocation Methodology (**Jemena Group CAM, CAM**) is to outline the method of attributing costs of services provided by JAM to the Jemena portfolio of asset businesses (Assets), that are listed in Appendix 7.1. Costs of services are both direct and indirect in nature and can be applied to capital, operating and maintenance type activities.

The CAM is established in line with the SGSPAA Group's Financial Management policy, procedures, manual, frameworks and guidelines such as the cost allocation principles adopted in Capital Projects And Asset Recording Procedure (JAA FIN PR 0019), Property, Plant And Equipment Guidance (JAA FIN GU 0012), Intangible Assets Guidance (JAA FIN GU 0013) and Jemena Investment Management (**IM**) structure.

1.2 SCOPE

The scope of this document covers the procedure of cost attribution of services provided by JAM to the Jemena Group assets.

This document excludes the:

- attribution of costs within assets and for regulatory purposes, and
- attribution of costs within the Zinfra Group.

1.3 RESPONSIBILITIES

The responsibility for the application of the CAM rests with the General Manager, Financial Planning and Analysis, who will:

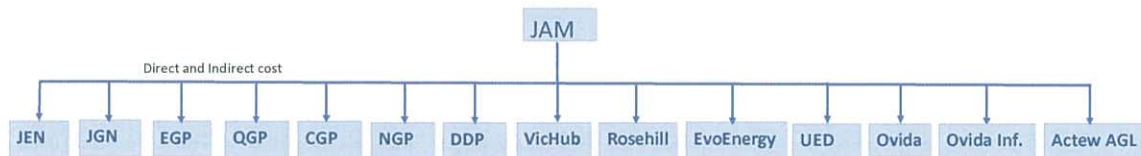
- conduct periodic reviews of the CAM; that includes, but not limited to, changes to organisation structure, operating model, cost allocation policy, significant accounting policies and regulatory guidelines where applicable.
- liaise with the CFO, Business Unit Managers, Finance Managers and their staffs where issues are raised, and
- act as the reference point for all queries regarding the CAM.

In response to organisational change, process improvements, regulatory, legal and accounting standards changes, this CAM will be refined to ensure it continually meets the underlying principles and that cost drivers used are relevant.

Revisions to this CAM must be approved by General Manager, Financial Planning and Analysis.

2 ASSET STRUCTURE

Below is the portfolio of Assets within the Jemena Group that receives costs through the cost allocation methodology from JAM



Further information about the portfolio of Assets relevant to this CAM, is included in Appendix 7.1.

3 OPERATING STRUCTURE

The Jemena Group’s current operating structure was developed to align with key business strategies to improve long term profitability, establish more competitive service offerings and reduce cost and complexity.

To support the Jemena Group strategies and operating structure, functional groups were established to provide operating services and corporate support services. The functional groups include:

- Asset Management (**AM**),
- Service Delivery (**SD**),
- Customer & Markets (**C&M**), and
- Corporate: Information Technology (**IT**), Finance, People Safety & Environment, Legal Corporate Secretariat & Procurement, Managing Director, Corporate Development and Process Centre of Excellence.

Details of services delivered by these functional groups and their functions are outlined below:

3.1 ASSET MANAGEMENT

Below are the functions carried out in each department:

Departments	Function
Asset Strategy - Electricity	Development and delivery of asset life-cycle strategies and specifications to optimise performance for Jemena’s electricity network.
Asset Strategy - Gas	Development and delivery of asset life-cycle strategies and specifications to optimise performance for Jemena’s gas network, pipeline transmission and water assets.
Asset Investment & Major Projects	Provide engineering design as well as business case development and execution management for Jemena’s major asset projects, Establish, monitor and manage the rolling works programs and other activity through the provision of effective planning, portfolio management and reporting.

Departments	Function
Asset Risk & Management Systems	Consolidation and management of all asset risk & assurance activities, Provision of asset data management and asset operating systems, and Stewardship of Jemena's Asset Management System (the quality management system for managing assets).
Property Portfolio Management	Manage property related assets in a consistent, professional and cost effective manner, and Provide a safe, engaging and productive workplace environment for Jemena employees and business units.

3.2 SERVICE DELIVERY

Below are the functions carried out in each department:

Departments	Function
Maintenance	Planning, scheduling, emergency, corrective and planned repair and maintenance activities by effectively managing Jemena's directly employed and outsourced workforces; ensuring compliance with scheduling, internal budgets and quality.
Network Operations & Control	Effectively operate Jemena's Assets by effectively dispatching energy and sources to meet changing asset and customer requirements, Manage, maintain and continuously improve operational systems, tools, equipment and field works practices, Provide effective risk assessment and risk management support for Service Delivery activities, and Monitor, report and facilitate improvement in Service Delivery compliance to its regulatory, system and customer service obligations.
Projects & Construction	Management of projects on existing Jemena assets, ensuring delivery in accordance to time, cost, and quality requirements, and Standardisation of delivery of projects in accordance with Jemena's Project Management Methodology (PMM).

3.3 CUSTOMER & MARKETS AND CORPORATE

Below are the functions carried out in each department:

Departments	Function
Customer & Markets	Lead Jemena to become a commercial and competitive organisation, Ensure Jemena's products and services meet customer's needs and deliver an economic return, Provide and continuously improve customer service through the management of:

Departments	Function
	<ul style="list-style-type: none"> ○ the 'Front door' to the business, Jemena (first call contact) that is supported by standardised processes, ○ Jemena invoices, Dial Before You Dig (DBYD) applications, SAP compliance, and customer services administration, ○ all market operations and delivery as per obligations, and ○ all meter-related service functions. <p>Oversee customer billing management against within budget and regulatory allowances.</p>
Information Technology	Defines, delivers and supports a range of IT solutions and services that enable Jemena's strategic outcomes.
Finance	Delivers and leads financial reporting and assurance activities such as accounting, group taxation, treasury, investment analysis, investor relations, risk, insurance internal audit and business services.
People, Safety & Environment	Provide strategic and effective solutions and services for people, change, communications, safety, environment, health and quality.
Legal, Corporate Secretariat & Procurement	<p>Provide legal advice to the business in order to ensure any significant legal risks during the course of business are addressed and mitigated,</p> <p>Provide support to the SGSPAA Board and other SGSPAA subsidiary Boards (Jemena) and advises on issues ranging from the duties of Directors, transparent corporate governance and corporate regulatory compliance,</p> <p>Lead strategic procurement and sourcing across Jemena, and</p> <p>Manage and monitor the effective commercial engagement of contractors.</p>
Managing Director Including Internal Audit & Corporate Affairs	<p>Provide executive oversight and board liaison on asset and financial management and stakeholder relations. Also holds additional responsibility of overseeing the internal audit function.</p> <p>Influence the policy environment to be conducive to Jemena's strategic ambitions, and</p> <p>Manage Jemena's corporate brand and social license to operate.</p>
Corporate Development	Setting the medium to long term direction of SGSPAA to enable Jemena to grow profitably and sustainably in a changing and dynamic energy market.
Process Centre of Excellence	Manage and maintain the Jemena Operating Model and lead the embedment of process management and continuous improvement across Jemena.

4 COST ALLOCATION APPROACH

The cost capture within JAM and the allocation of costs from JAM to the appropriate Assets is governed by Jemena Group CAM and is applied consistently across the AM, SD, Corporate and C&M functional groups.

The Jemena Group utilises an Enterprise Resource Planning (**ERP**) business system to capture, control and report its costs at the general ledger account level through the use of cost centres, profit centres and projects (that is, summary level cost collector). JAM does not add any margins on costs it transfers to assets within the Jemena Group.

4.1 COST ALLOCATION BY COST TYPE

There are two distinct methods where costs are assigned to assets within the Jemena Group:

1. Directly attributable costs, and
2. Indirect costs

Most of the costs that JAM incur are directly attributable to individual assets. Where data cannot be directly attributed, an allocation of costs takes place using an appropriate costs driver.

4.1.1 DIRECTLY ATTRIBUTABLE COSTS

Costs that are directly attributable to specific assets are directly recorded against that asset using ERP functionality.

Costs that are captured to projects are assigned using activity cost collectors in the ERP system known as Work Breakdown Structure (**WBS**). Each WBS is referenced to a specific project code that corresponds to an activity type. The activity type identifies the nature of the works carried out - the activity types include capital, operating or maintenance and is also used to identify the type of service being provided.

Cost Type	Cost Driver
Labour	<p>Labour costs are assigned using time writing through the ERP system Cross Application Timesheets (CATS) module to relevant WBS under an activity. The labour costs assigned to these unique project codes can be traced back to the function group and department that incurred these costs. The labour rate represents an employee's labour rate plus on-costs and is split between normal and overtime.</p> <p>A standard labour rate is calculated based on labour cost bands driven by functional areas (e.g. AM and SD) and skillsets.</p>
Subcontractors	<p>External contractors may be sourced to supplement the existing workforce for specific projects, additional workloads or to cover employee absences. Subcontractor costs are receipted against the outstanding purchase order and directly assigned to a relevant WBS under an activity.</p>
Materials	<p>Material costs include stock items distributed through warehousing and materials purchased directly from an external party via purchase order processing system. Material costs are directly assigned to a relevant WBS under an activity.</p>

Cost Type	Cost Driver
Fleet and Major Equipment	Assigned based on a standard fleet and major equipment rate against the cost centres which own the vehicles. All time writing hours against these cost centres are also assigned an additional hourly amount on a unique cost element to reflect fleet allocations. As per labour, the cost objects reflect whether the allocation is capex or opex and maintenance related.
Other direct costs	These are costs incurred directly for the asset. These costs include costs such as government levies, marketing, unaccounted gas (UAG), grid fees, license fees and permits.

4.1.2 INDIRECT COSTS

Costs that are not directly attributed to a specific asset, and are likely to relate to services provided to multiple assets, are allocated using an appropriate driver that is the most significant trigger of consumption or utilisation of resources or services. These costs are indirect in nature, under the principles of the CAM.

Cost Type	Cost Driver
Store Recoveries	Assigned based on materials requisitioned out of stores. It is allocated based on a fixed percentage of store recovery on a unique cost element to reflect the cost of running a warehouse; costs include storemen and forklifts. The cost object will determine whether the materials and stores costs are capital or maintenance.
Property Costs (non-corporate)	Total costs include rental, rates and security, which are charged as a percentage of total direct costs to projects and are applied via costing sheets against all direct costs on a project.
Non Labour Recoveries	The remaining direct costs not included in the above cost types subject to a determination of capitalisation under Accounting Standards are applied to all projects using costing sheets. Costing sheets are based on time writing results.
Support Costs	<p>Support costs that are not assigned directly to a specific project, are assigned to support costs projects.</p> <p>Where support costs are considered as attributable to capital projects, these costs are recovered using SAP functionality known as costing sheets (refer Support Costs Capitalisation where methodology is discussed in section 4.1.2.1)</p> <p>Support costs are assigned to assets using:</p> <ul style="list-style-type: none"> (i) Specific Drivers <ul style="list-style-type: none"> a) IT specific driver <p>IT services are provided by Jemena IT using a mix of shared services, common software applications and systems specific to the assets.</p> <p>Capital costs are assigned directly based on case by case basis using benefits derived from projects for individual assets. If the solutions delivered through a particular project benefits one or more assets the costs are assigned to those assets based on a predetermined allocation agreed at the business case development and approval stage.</p>

Cost Type	Cost Driver
	<p>Incremental costs incurred in relation to capital items that are ongoing such as licensing costs, storage capacity costs etc are assigned to assets based on a predetermined allocation agreed annually.</p> <p>Operational costs are assigned based on a composite IT driver, determined annually, that is derived from the cost drivers applying to the following cost categories:</p> <ul style="list-style-type: none"> • IT operational costs - based on number of servers, number of devices held and site costs • Service management costs – proportional based on number of applications and desktops/laptops • Business applications and infrastructure – SAP support costs allocated based on number of users • Enterprise information and communication technology costs – proportional based on number of applications • Data and network services costs – directly allocated where possible or proportional based on number of desktops/laptops • Telecommunication costs – direct allocation where possible or proportional based on number of applications/ users. <p>b) Insurance specific driver</p> <p>Insurance costs are predominantly insurance premiums of policies that apply to SGSPAA and are directly attributing to the portfolio of assets. These are assigned to portfolio assets based on weightings applicable to each insurance policy (on policy renewal) relating to:</p> <ul style="list-style-type: none"> • Risk exposure: Proportion of premium based on the risk exposure of each portfolio asset; • Claims history: Proportion of premium based on the historical claims experience or number of actual losses for each portfolio asset, which is a direct reflection of a portfolio asset's ability to manage risk; and • Risk factor: Proportion of premium based on areas such as risk type, location and also risk management initiatives and compliance. <p>c) Corporate property specific driver</p> <p>Corporate property costs are allocated to assets using SAP functionality known as settlement rules, which are based on the site location of employees and their associated time writing data.</p> <p>(ii) Other Drivers</p> <p>a) Time writing / FTE survey</p> <p>Support costs, other than those using specific drivers stated above, are assigned to assets using time writing results. Time writing was originally introduced to assign direct costs. Jemena has extended the application of time writing through CATS to improve assignment of support costs to specific assets.</p>
Other Indirect Costs	<p>Unallocated residual costs from cost centres are allocated to assets based on the drivers applicable to those cost centres. These costs include :</p> <ul style="list-style-type: none"> d) Labour costs – staff salaries, temporary staff costs and directors' fees; e) Other staff costs – welfare costs, training and development costs;

Cost Type	Cost Driver
	f) Administration costs – office consumables, subscriptions, telecommunication costs, recruitment costs and advertising; g) Consultancy and contractor costs; h) Professional services – legal fees and audit fees; and i) Travel and entertainment expenses

4.1.2.1 SUPPORT COST CAPITALISATION

The support costs are incurred as part of day to day operating activities and are generally categorised as opex in principal. But if those costs are incurred to enhance or improve the future economic benefits of an asset, those costs can be capitalised to the asset as overheads incurred.

Decisions to either capitalise or expense costs incurred are guided by applying accounting standards or legal requirements, noting that the cost of an item should only be recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the costs of the item can be measured reliably.

Support costs may be capitalised if supportable by the Australian Accounting Standard - Property, Plant and Equipment (AASB 116) and any other relevant accounting standards and guidelines. The Jemena Group business rules governing the capitalisation of such support costs are outlined in Appendix 7.2.

Support costs that are considered as attributable to capital projects are allocated based on methodologies described below.

Support Cost	Methodology
AM	Support costs for capitalisation are determined as a percentage of total direct costs associated with activities. The total value of costs is recovered to assets based on direct cost expenditure on a proportional basis.
SD	
Corporate	IT, Procurement and HSEQ costs that support capex works are capitalised. The total value of costs is recovered to assets based on direct cost expenditure on a proportional basis.
C&M	In C&M, a proportion of JGN Network Development resource costs are capitalised.

4.2 COST ALLOCATION BY FUNCTION GROUP

Cost allocation methods applicable to each functional group is per below:

4.2.1 ASSET MANAGEMENT

Department	Directly attributable costs	Indirect costs	Capitalised support costs
Asset Strategy Electricity	Y	Y	Y
Asset Strategy Gas	Y	Y	Y
Asset Investment & Major Projects	Y	Y	Y
Asset Risk & Management Systems	Y	Y	Y
Property Portfolio Management	Y	Y	N

4.2.2 SERVICE DELIVERY

Department	Directly attributable costs	Indirect costs	Capitalised support costs
Maintenance	Y	Y	Y
Network Operations & Control	Y	Y	Y
SD Leadership	N	Y	N
Projects & Construction	Y	Y	Y

4.2.3 CUSTOMER & MARKETS AND CORPORATE

Department	Directly attributable costs	Indirect costs	Capitalised support costs
Customer & Markets	Y	Y	Y ¹
Information Technology	Y	Y	Y
Finance	Y	Y	N
People, Safety & Environment	Y	Y	Y ²
Legal, Corporate Secretary & Procurement	N	Y	Y ³
Managing Director incl Internal Audit	Y	Y	N
Corporate Development	N	N	N
Process Centre of Excellence	N	Y	N

¹ Only JGN Network Development related costs are capitalised

² Only HSEQ related costs are capitalised

³ Only Procurement costs are capitalised

5 TERMS & DEFINITIONS

ActewAGL	ActewAGL distribution partnership	Jemena Group	SGSPAA Group excluding Zinfra Group
AM	Asset Management	JEN	Jemena Electricity Networks (Vic) Ltd
AMP	Asset Management Plan	JGN	Jemena Gas Networks (NSW) Ltd
CAM	Cost Allocation Methodology	NGP	Northern Gas Pipeline
C&M	Customer and Markets	Opex	Operating Expenditure
Capex	Capital Expenditure	PMM	Project Management Methodology
CATS	Cross Application Timesheets	QGP	Queensland Gas Pipeline
CFO	Jemena Chief Financial Officer	RFG	Ring Fencing Guideline
CGP /	Jemena Colongra Pty Ltd	Rosehill	Rosehill Recycled Water Scheme
DAMS	Distribution and Asset Management Service (Evo Energy)	SAP	SAP enterprise resource planning and data management software
DDP	Darling Downs Pipelines	SGSPAA	SGSP (Australia) Assets Pty Ltd
EGP	Eastern Gas Pipeline	SGSPAA Group	SGSPAA and its subsidiaries and associates
FTE	Full Time Equivalent	UAG	Unaccounted Gas
HSEQ	Health, Safety, Environment and Quality	VicHub	Jemena VicHub Pipeline Pty Ltd
IM	Jemena Investment Management	WBS	Work Breakdown Structure
IT	Jemena Information Technology	SD	Service Delivery
JAM	Jemena Asset Management Pty Ltd	Zinfra Group	Zinfra Pty Ltd and its subsidiaries

6 REFERENCES

6.1 INTERNAL

The following documents are referenced in this document:

- Capital Projects And Asset Recording Procedure (JAA FIN PR 0019)
- Property, Plant And Equipment Guidance (JAA FIN GU 0012)
- Intangible Assets Guidance (JAA FIN GU 0013)
- Jemena Organisation Framework (JEM HR GU 0001)
- Jemena Investment Management (IM) structure
- Jemena IM And Activity Code Register

6.2 EXTERNAL

- Australian Accounting Standard - Property, Plant And Equipment (AASB 116)

7 APPENDICES

7.1 PORTFOLIO OF ASSETS APPLICABLE TO JEMENA GROUP CAM

Below is the list of assets to whom services are provided by function groups in JAM. These assets provide both regulated and unregulated services.

Asset Owner	Services Provided by JAM
JGN	<p>Jemena is responsible for managing the JGN gas distribution network.</p> <p>JGN provides gas to over 1.3 million customers across Sydney, Newcastle, Wollongong and over 20 country centres via approximately 25,000km of distribution system.</p>
JEN	<p>Jemena is responsible for managing the JEN electricity distribution network.</p> <p>JEN distributes electricity to over 319,000 customer sites via approximately 6,160km of distribution system and over 950 square kilometres of north-west greater Melbourne.</p>
EGP	<p>Jemena is responsible for management, maintenance and construction activities on the Eastern Gas Pipeline (EGP).</p> <p>EGP is a key supply artery between the Gippsland Basin in Victoria and NSW.</p>
QGP	<p>Jemena is responsible for management, maintenance and construction activities on the Queensland Gas Pipeline (QGP).</p> <p>QGP links the Wallumbilla gas hub in south central Queensland to large industrial gas users in Gladstone and Rockhampton.</p>
DDP	<p>Jemena is responsible for management, maintenance and construction activities.</p> <p>DDP is three interconnected gas transmission pipelines in the Darling Downs region in South East Queensland that operate as a single pipeline network.</p>
NGP	<p>Jemena is responsible for management, maintenance and construction activities.</p> <p>NGP is a 622km gas pipeline and two large compressor stations to transport gas from gas fields located near Tennant Creek in the Northern Territory (NT), through to Mount Isa in north-west Queensland (QLD).</p>
CGP	<p>Jemena is responsible for managing the Jemena Colongra Pty Ltd (Colongra) gas facility.</p> <p>Colongra gas transmission and storage pipeline was designed and built by Jemena to deliver gas to Delta Electricity's 667MW gas turbine facility near the existing Munmorah power station on the Central Coast of NSW.</p>
VicHub	<p>Jemena is responsible for management, maintenance and construction activities on the Jemena VicHub Pipeline Pty Ltd (VicHub) pipeline.</p> <p>VicHub enables gas to flow bi-directionally between the Eastern and Tasmanian Gas Pipelines and the Victorian gas transmission system.</p>
Rosehill	<p>Jemena is responsible for managing the Rosehill recycled water scheme.</p> <p>AquaNet has a long term agreement with Sydney Water to build own and operate the Rosehill Recycled Water Scheme.</p>
Ovida	<p>Ovida was established to introduce new and innovative products and services that give Australian energy consumers easier access to the benefits of distributed energy and emerging technologies. Ovida's pursuit of behind-the-meter opportunities includes</p>

Asset Owner	Services Provided by JAM
	contestable electricity services and is in compliance with the Australian Energy Regulator's Ring Fencing Guideline (RFG), which took effect on 1 January 2018.
EvoEnergy	<p>Jemena is responsible for managing the EvoEnergy gas network. The services are provided under a Distribution and Asset Management Service (DAMS) agreement.</p> <p>The ActewAGL distribution partnership (refer ownership details in 'ActewAGL Investment' below) owns, plans, develops, constructs, operates and maintains the electricity network in the Australian Capital Territory (ACT) and the gas networks in the ACT and south east NSW and manages all water and wastewater operations in the ACT.</p>
ActewAGL Investment	<p>Jemena manages the investment in ActewAGL.</p> <p>Jemena has a 50% interest in ActewAGL, the remaining 50% of the partnership is owned by ACTEW Distribution Ltd, a subsidiary of ACTEW Corporation Ltd. ACTEW Corporation Ltd is a government owned company with assets and investments in water, wastewater, electricity, gas and telecommunications.</p>
UED Investment	<p>Jemena manages the investment in United Energy on behalf of SGSPAA.</p> <p>Jemena's holding company, SGSPAA owns a 34% interest in United Energy, which owns the electricity distribution network servicing the south-eastern suburbs of Melbourne and the Mornington Peninsula. Its licence area is largely urban in nature.</p>

7.2 JEMENA GROUP BUSINESS RULES GOVERNING THE CAPITALISATION OF SUPPORT COSTS

What can be capitalised:

- Costs directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended.
- An appropriate proportion of any directly attributable support costs.
- Costs of testing whether an asset is functioning properly.
- Professional fees (architects, engineers etc).
- Costs arising from the development phase of a project (provided the other criteria are met). Development is defined as 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.
- Support costs that are specifically attributable to a capital project.
- Support costs that cannot be specifically attributable to a capital project, but relate to capital works generally, provided they are capable of being reliably measured and allocated on a reasonable basis.
- Rental and other running costs for an office that is set up specifically to support the construction of an asset.
- Costs incurred in relation to project management, where the project is of a capital nature.
- Costs attributable to staff working on specific projects, where the projects are of a capital nature.

What cannot be capitalised:

- Repairs and maintenance costs (day-to-day servicing costs including labour, consumables and small parts).
- Costs of introducing, advertising or promoting a new product or service.
- Costs of conducting business in a new location or with a new class of customers, including costs of staff training.
- Administrative and general overhead costs.
- Costs incurred in relocating or reorganising an entity's operations.
- Overhead expenditure that cannot be directly attributable to preparing an asset for use (selling and administrative expenses, etc.).
- Costs arising from the research phase of a project. In the research phase of a project, an entity cannot demonstrate that an asset exists that will generate probable future economic benefits. Research is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.