Attachment 5.12

Capitalisation policy

May 2014

Contents

1. **SAT103 Capitalisation Policy v2.1 final.doc**
2. **SAT123 Capitalisation of Borrowing Costs - Overview.pdf**
3. **SAT130 Managing AUC to Fixed Assets Partial Capitalisation v2.0 final.doc**

1. **SAT103 Capitalisation Policy v2.1 final.doc**

Capitalisation Policy (Property, Plant & Equipment)	Statement : SAT103 Page : 1 of 12 Version : 2.1 Issue Date : 17.08.11 Status : Final Issued by : Corporate Finance

1. OBJECTIVE

This capitalisation policy defines capital and maintenance expenditures for Ausgrid and provides guidelines on the appropriate accounting treatment.

APPLICATION DATE

The reporting requirements of the Standard are applicable to Ausgrid for accounting period commencing 1 July, 2005 (financial statements 2005/06).

Clearly there will be situations where the type of expenditure is borderline, contact Divisional Finance Managers for accounting guidance. Should further clarification be required, contact Corporate Finance: Manager – Corporate Accounting (for asset/expense questions) or Manager -Taxation (for tax deductibility questions).

2. ACCOUNTING STANDARD

2.1 Definition & Recognition of an Asset

The AASB "Framework for the Preparation and Presentation of Financial Statements" defines an asset as:-

- *"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."(Paragraph 49a)*
- Other characteristics, for example, physical form, right of ownership, legal control, are not essential to the existence of an asset. (Paragraph 56 –57)
- *"An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably."(Paragraph 89)*

2.2 Property Plant & Equipment (AASB 116)

2.2.1. Recognition

AASB 116 Property Plant and Equipment (paragraph 7) states that:-

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 future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

2.2.2. Element of Costs

- The cost of an item of property, plant and equipment comprises (paragraph 16) :

  (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 (end of life) 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 for purposes other than to produce inventories during that period. (Note: This cost will also be measured in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.(paragraph 16, 18));

  (d) borrowing costs related to "Qualifying Assets", (see draft SAT 123 for further details), from 1 July 2009.

- Examples of directly attributable costs are (paragraph 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;

  (b) costs of site preparation;

  (c) initial delivery and handling costs;

  (d) installation and assembly costs;

  (e) costs 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); and

  (f) professional fees.

- Examples of costs that are <u>not</u> costs of an item of property, plant and equipment are (Paragraph 19) :

  (a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

- The following costs are not included in the carrying amount of an item of property, plant and equipment (Paragraph 20):
  (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
  (b) initial operating losses, such as those incurred while demand for the item's output builds up; and
  (c) costs of relocating or reorganising part or all of an entity's operations.

- Incidental operations

  Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. The income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense. For example, income may be earned through using a building site as a car park until construction starts. (Paragraph 21)

- Self-constructed assets

  The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AASB 102 Inventories). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. (Paragraph 22)

2.2.3. Subsequent Costs

- Repairs and maintenance (paragraph 12)

  An entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-today servicing are primarily the costs of labour and consumables, and may include the cost of small parts.

- Replacement (paragraph 12)

  Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe (aircraft). Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of AASB116 (paragraphs 67-72).

- Regular major inspections (paragraph 14)

  A condition of continuing to operate an item of property, plant and equipment (e.g. an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

  (The application of this requirement for Ausgrid is currently under review.)

3. AUSGRID CAPITALISATION POLICY

3.1 Definition of Capital Expenditure

Expenditure is to be classified as capital, if the definition and recognition criteria for an asset stated in AASB 116 (per section 2.2 above) is met.

In addition, improvements to existing assets should be capitalised where it is probable that future economic benefits greater than the originally assessed standard of performance of the asset will flow to the entity. This encompasses the service capacity, service quality and useful life. Expenditure should be capitalised when it:-

- Enhances the economic benefits of the assets in excess of its previously assessed standard of performance, or
- Replaces or restores a component of the asset that has been treated separately for depreciation purposes and depreciated over its useful economic life, or
- Relates to a major inspection or overhaul that restores the economic benefits of the asset that have been consumed by the entity and has already been reflected in depreciation, or
- Will significantly reduce the ongoing maintenance costs of the asset, or
- Will extend the service life of the asset beyond that expected when the asset was originally installed.

3.2 Capitalisation Threshold

The capitalisation threshold adopted by Ausgrid is prepared in accordance with Treasury's Guidelines and the Australian Taxation regime. The threshold limits are:-

- Non Network System Assets with acquisition cost less than $500 should be charged as an operating expense in the year of acquisition. Non Network System Assets include:-
  - Furniture
  - Office Machines and Photocopiers
  - Plant and Tools
  - Radio Equipment
  - Telephone
  - Computer Equipment (eg: Personal Computers, Laptops, Printers)
  - Fleet
  - Mobile Phones
- Non network system assets that cost $500 or more but less than $1,000, should be capitalised as pooled assets. These assets will not be individually accounted for in the Fixed Assets Systems. The pool assets are fully depreciated in the year of purchase for accounting purposes but are depreciated on a declining balance rate of 37.5% for tax purposes.
- Expenditure on the acquisition or construction of the following is deemed to be a fixed asset regardless of cost:
  - Land
  - Communication and Telephone Systems (excluding mobile phones)
  - Network system assets which increase the useful life or capacity of the distribution system.
- Hardware and integral software only of a software development project are classified as PP&E. Application Software is classified as Intangible Asset. Refer to SAT104 Intangible Assets – Computer Software for details.

- Generally, the costs of assets that form part of a project (eg computer system, or office furniture) should be aggregated together when applying the capitalisation threshold tests.

4. NETWORK SYSTEM ASSETS

4.1 General

In relation to System Assets, major components of the network asset that have significantly different useful lives should be treated as separate items (as defined by asset classes in SAP, also refer to Fixed Assets Policy – Definitions (FAP 002))and depreciated in accordance with the Ausgrid Fixed Assets Policy (FAP001). The cost of separately depreciated items that form part of a larger asset should be aggregated together when assessing the capitalisation threshold test.

For example, poles may have a useful life of many years, whereas other components (such as cross arms and insulators) may have relatively short useful lives. In these circumstances it may be more appropriate to separate the expenditure into two different components for depreciation purposes, however, the capitalisation assessment would be based on the aggregated expenditure.

In accordance with Schedule A& B of the changes to the Industry of Accounting Practice dated April 1995, the following principles are used to determine if expenditure on Network Assets is capital or operations (maintenance).

<u>Operations (Maintenance)</u>

- Maintenance can be defined as making good any fault in a revenue producing asset thus restoring it to its operational condition.
- Maintenance also includes the notion of servicing the asset thus ensuring that the asset meets its operational performance and reliability expectations.
- Maintenance does not significantly extend the expected life of the asset but rather, it ensures that the useful life expectations will be met.

<u>Capital</u>

Expenditure is of a capital nature when;-

- A new asset is purchased or constructed.
- An existing asset has been increased in capacity.
- The long term useful life of an existing asset has been materially and permanently extended beyond original expectations such that a reassessment of the useful life is necessary.

Further elaboration of these broad principles as applied to Network System Assets is included in Schedule A at the end of this policy.

4.2 Costs to be Capitalised

The costs classified as capital expenditure in the process of the creation, via construction or purchase, of capital assets include:

- Direct labour expenditures,
- Labour on-costs,
- Direct material expenditures,
- Contract and service payments,
- Motor vehicle / Mobile plant charges,
- Other identifiable direct costs, and
- Capital activity related overheads (but no general and administrative overhead)
- Dismantling, removal, and site restoration costs, where an end of life removal obligation exists, even though the costs will be incurred subsequent to the time of purchase or construction of the new asset. (Note: specific criteria need to be met for these types of costs to be capitalised. Please refer to section 2.2.1 of SAT110 Dismantling, Removal and Site Restoration Costs for Property Plant & Equipment)
- Borrowing costs attributable to "Qualifying assets" ,see below Section 6 and see also Draft SAT123, from 1 July, 2009.

5. LEGAL FEES

In accordance with paragraph 17 of AASB 116 PP&E (section 2.2.2 above) and paragraph 28 of 4AASB 138 Intangible Assets, professional fee is one of the examples of directly attributable costs that can be included as the cost of an asset.

Legal fees incurred in relation to the acquisition of a tangible or intangible asset should be capitalised and are generally non deductible for tax purposes. For example:

- conveyancing costs in connection with the purchase of real estate;
- legal fees in connection with the purchase or establishment of a business;

- legal fees in purchasing or constructing any asset used in the business (ie legal fees associated with a specific System capital or IT capital project).

The capitalisation threshold should be referred to section 3.2.

Legal fees relating to every day business activities where there is no enduring benefit would be expensed as incurred and are normally tax deductible. For example:

- legal fees for recovering bad debts;
- legal fees in disputing a maintenance or electricity contract;
- legal fees associated with the non performance of a contract;
- legal fees in relation to employment matters;
- retainers paid to a legal firm are always tax deductible and there is no need to ascertain what work was undertaken by the solicitor;
- legal fees associated with borrowing money and discharging mortgages;
- preparation of leases;
- legal fees associated with performance contracts (ie CSC or other service providers).
- Effective 1 July 2009, acquisition related costs, including legal fees, incurred in relation to a business combination are to be accounted for as expenses. (AASB 3.53)

6. BORROWING COSTS

Borrowing costs are interests and other costs incurred in connection with borrowing.

Effective 1 July 2009, the Standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to get ready for its intended use or sale (a qualifying asset). Other borrowing costs are recognised as an expense in the period in which they are incurred. Revised AASB 123.8

Please refer to SAT123 Capitalisation of Borrowing Costs for further details.

7. COMPUTER SOFTWARE DEVELOPMENT

There is a distinction between Intangible and Property, Plant & Equipment for software development costs.

AASB 138 Intangible Asset (para 4) requires that

- when a computer software is an integral part of the related hardware, that is a computer-controlled machine tool cannot operate without that specific software, it is treated as Property, Plant & Equipment .
- When the software is NOT an integral part of the related hardware, computer software is treated as an Intangible Asset.
- Hardware costs are treated as Property, Plant & Equipment.

Refer to SAT104 Intangible Assets – Computer Software for details.

8. REFERENCES

- SAT104 Intangible Assets - Computer Software
- SAT110 Dismantling, Removal and Site Restoration Costs for Property Plant & Equipment
- SAT008 Emergency Damage Work
- SAT011 Repair of Damaged caused by Natural Disasters
- FAP001 Fixed Assets Policy
- AASB "Framework for the Preparation and Presentation of Financial Statements
- NSW Treasury Accounting Policy - Guidelines for Capitalisation of Expenditure on Property, Plant and Equipment, June 2006, (TPP 06-6)
- AASB 116 *Property Plant & Equipment*
- AASB 138 *Intangible Assets*
- UIG Interpretation 132 Web Site Costs – Intangible Assets
- Australian Master Tax Guide, Section 14-725, 17-370.
- Changes to Electricity Industry Code of Accounting Practice, April 1995 , Schedule A& B.
- Proposed Accounting Separation Code of Practice for Regulated Electricity Businesses in NSW, August 2001, IPART (Section 4.10.1 Capital Expenditure)
- SAT123 Capitalisation of Borrowing Costs
- AASB 123 Borrowing Costs
- AASB 3 Business Combinations

Schedule A – Capitalisation examples of Network System Assets

Here are some examples in relation to capitalisation of Network Assets:-

Operating Expenses:-

- Replacing like with like or a modern equivalent asset is maintenance and should be included as operating expenses.
- All pole replacements should be treated as maintenance (ie. operating expenses), except where it is part of a major replacement program to extend the useful life of the system. (as per Changes to Code of Accounting Practice, 1995 and Proposed Accounting Separation Code of Practice, 2001).
- Pole replacements costs including all expenditure necessary to undertake the work being the removal of the old pole, cross arms, insulators, and re-conductoring.
- Replacement of a pole due to vehicle damage (eg: pole is lying on the ground) is operating expenditure. (For details, please refer to SAT008 Emergency Damage Work)
- Storm & Breakdown repair is operating expense when the asset is repaired to the same standard as was the case prior to when the damage occurred. It can be capitalised only when the assets are rebuilt to a higher standard, or destroyed assets are replaced by new assets. (For details, please refer to SAT011 Repair of Damaged caused by Natural Disasters).
- Pole relocation by request of a third party should form part of the recoverable works and be expensed.
- Pole reinforcement is operating expenditure. Where a single pole has been reinforced by one of the Network approved methods ("rebutting", "splinting", etc), the date of the reinforcing is recorded in the Poles & Pillars Asset Database. It is considered to be maintenance in nature as it ensures that the useful life expectations will be met.
- Expenditure undertaken to replace one off old sub-station items of equipment, (excluding transformers), due to wear and tear but not due to new load should be treated as maintenance and included in operating expenses.
- Painting pillars and kiosks, which can only improve the visual appearance of the assets, are operating expenditures. (Re: email dated March 6, 2003, Kiosks in Wyong area).

Capital Expenditure:-

- Expenditure undertaken to replace old substation equipment, (excluding transformers), due to wear and tear in conjunction with augmentation work, should be treated as capital expenditure. (Augmentation work is to upgrade the general network to enable a new customer to be connected.)
- Replacement of old Network Asset equipment including transformers under an identified "replacement program of work" should be treated as capital expenditure. Examples are

obsolete or aged Air Break Switches, Regulators, HV RMIs, LV Boards, HV CBs contained in the Capital works Planning Replacement Programs.

- Replacement of primary components of an asset which have a value greater than half the total value of that asset should be capital expenditure. An example would be a complete rewind of LV and HV windings of a transformer.
- Replacement of an essential component of the asset without which the primary asset could not function should be capital expenditure.
- Pole replacement under part of a major replacement program to extend the useful life of the system is capital expenditure. If it is not carried out under a major replacement program to improve the asset life, it is operating expenditure.
- Storm & Breakdown repairs which can be capitalised only when the assets are rebuilt to a higher standard, or destroyed assets are replaced by new assets. (For details, please refer to SAT011 Repair of Damaged caused by Natural Disasters). For example, where a length of Overhead mains greater than 20 meters has been replaced; or where a complete Overhead service has been replaced; or where multiple consecutive poles have been replaced. And these mains and services are recorded on appropriate documentation to enable the amendment and updating of the GIS system with the date of installation (commissioning date). The old assets have to be retired from the assets registers.
- Increasing operating temperature of Overhead Lines is capital expenditure. This often requires, replacing insulators, replacing old poles with new taller poles or increased numbers of poles, stronger structures for increased tensions
- Connection and Disconnection activities of Temporary equipment necessary to maintain supply during the course of refurbishing or replacing a major asset are capital expenditure.

  Two examples are:

  ♦ Distribution Substation Refurbishment/Replacement - Sometimes a temporary substation is required to be installed to transfer the customer load off the old substation so that refurbishment can be carried out. Following the installation of the refurbished substation and its equipment, there is also to transfer of load back to the refurbished substation and the decommissioning of the temporary substation. The costs to be capitalised are:

  1. the labour and material cost to transfer load from the Old Substation to the temporary substation;
  2. the labour cost and irrecoverable material costs to install the temporary substation;
  3. the labour and material cost to transfer load from the Temporary substation to the refurbished substation;
  4. the labour cost of removing the temporary substation

  All the above items should be included in the capital cost of refurbishing the old substation.

  Note: The material capital costs of recoverable/reusable assets from the Temporary Substation are excluded from the capital cost of the refurbished substation and are covered by the System Spares capital classification.

- Zone Substation Refurbishment/Replacement – Involves a similar exercise to the distribution substation example. Where the 11kV switchboard needs to be replaced in a zone substation, a temporary switchroom will be installed on or adjacent to the old switchroom. The existing 11kV feeder and transformer cables will be connected into the temporary switchroom. The old switchroom will be disconnected/de-commissioned. Then a new set of 11kV switchgear will be installed and followed by the re-connection of the 11kV feeders and transformer cables onto the new switchboard. Subsequently there will be disconnection and removal of the temporary switchroom. The costs to be capitalised are:
  1. the labour & material cost to transfer load from the Old 11kV Switchboard to the temporary 11kV switchboard;
  2. the labour cost & irrecoverable material costs of connecting the temporary switchboard;
  3. the labour & material cost to transfer load from the Temporary switchboard to the refurbished/replaced switchboard;
  4. the labour cost of removing the temporary switchroom;

  All the above items should be included in the capital cost of refurbishing the old 11kV switchboard and associated switchroom.

  Note: The material capital costs of recoverable/reusable assets from the Temporary Switchboard are excluded from the capital cost of the refurbished switchboard and are covered by the System Spares capital classification.

2. **SAT123 Capitalisation of Borrowing Costs - Overview.pdf**

Capitalisation of Borrowing Costs - Overview	Statement : SAT 123 Page : 1 of 10 Version : 2.0 Issue Date :15.11.2011 Status : Final Issued by : Corporate Finance

1. OBJECTIVE

This Statement of Accounting Treatment provides the accounting for capitalisation of borrowing costs on 'qualifying assets' in accordance with revised AASB 123 Borrowing Costs (June 2007 version).

Application Date

This accounting treatment is applicable prospectively from reporting period beginning on 1 July 2009.

2. BACKGROUND

The *Borrowing Costs* (July 2004) accounting standard previously included two options to account for borrowing costs – expense or capitalise. As part of the IASB convergence projects with US GAAP, a revised AASB 123 Standard was issued in June 2007 to remove the expense option for borrowing costs incurred for the acquisition, construction or production of a qualifying asset.

3. AUSTRALIAN ACCOUNTING STANDARD – KEY FEATURES

3.1 Core principle

An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the costs of that asset. Other borrowing costs are expensed in the period incurred. (AASB 123.8)

Out of scope

An entity is not required to apply the Standard if:

- a qualifying asset is measured at fair value, for example, a biological asset; or
- inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

3.2 Definition

3.2.1 Borrowing Costs

Borrowings costs are interests and other costs that an entity incurs in connection with the borrowing of funds which may include:-

- Interest expenses calculated using the effective interest method as described in AASB 139, e.g. interest on bank overdrafts and short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings.
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings,
- Finance charges in respect of finance leases recognised in accordance with AASB 117 Leases, and
- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

3.2.2 Qualifying asset (AASB 123.7)

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Depending on circumstances, any of the following may be qualifying assets:-

- Inventories
- Manufacturing plants
- Power generation facilities
- Intangible assets
- Investment properties

The following assets are NOT considered as qualifying assets if,

- Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets.
- Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets, or the assumption of interest-bearing liabilities and are reduced by any progress payments or grants received. (AASB 123.18)

(Note: Interest may not be capitalised during a period in which there are no activities that change the asset's condition. For example, borrowing costs incurred to acquire a land for building purposes but the land is held without any associated development activity do not qualify for capitalisation (AASB 123.19))

3.2.3 Directly attributable to

Directly attributable to means those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

- When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs can be readily identified. Borrowing costs capitalised are reduced by any investment income earned.
- When the financing activity of an entity is co-ordinated centrally or is using a range of debt instruments, it may be difficult to identify a direct relationship. The exercise of judgement is then required.

3.3 Commencement of capitalisation

3.3.1 Commencement of capitalisation (AASB 123.17-19)

An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. This is the date when the entity first meets all of the following conditions:-

a) It incurs expenditures for the asset;

b) It incurs borrowing costs, and

c) It undertakes activities that are necessary to prepare the asset for its intended use or sale, including technical and administrative work prior to the commencement of physical construction, such as obtaining permits.

3.3.2 Calculation of borrowing costs eligible for capitalisation (AASB 123.14, 18)

- For funds borrowed generally and used for the purpose of obtaining a qualifying asset, the entity shall apply a capitalisation rate to the expenditure of the qualifying asset.
- The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specially for the purpose of obtaining a qualifying asset.
- The average carrying amount of the asset during the period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period. (para 18).
- The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs incurred during the period.

3.4 Cessation and suspension of capitalisation

3.4.1 Cessation of capitalisation (AASB 123.22-25)

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When an entity completes the construction of a qualifying asset in parts and each part is capable of being used independently, the entity shall cease capitalising borrowing costs when it completes substantially all the necessary activities for that part of the asset. For example, a business park project comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts.

3.4.2 Suspension of capitalisation (AASB 123.20-21)

An entity shall suspend capitalisation of borrowing costs during extended periods when it suspends active development of a qualifying asset.

However, no suspension of capitalisation is required if,

- substantial technical and administrative work is still being carried out, or
- temporary delay which is a common or necessary part of the process, eg: delays due to storms, etc.

3.5 Impairment

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. (AASB 123.16)

4. ENERGYAUSTRALIA ACCOUNTING TREATMENT

4.1 Ausgrid qualifying asset

Qualifying asset is any new individual capital project (not program), with an Instruction for Project Implementation (IPE) date commencing on or after 1 July 2009 (i.e. when project commences major construction at execute stage), and the estimated project cost is greater than $10M[1] and takes more than twelve months to complete [2].

[1] In accordance with the Investment Governance Framework published December 2008, definition of major capital works projects are those having a cost estimate greater than $10 million.
[2] 12 months period is general industry practice.

Capital projects include:-

- System capital projects
- Non system building projects
- IT capital projects

but EXCLUDES:

- Purchase of system and non-system land. (As land is fair valued at year end associated borrowing costs are not required to be capitalised.)
- Capital project or a part of it which is funded by government grant or customer capital contribution.

4.2 Calculation of capitalised borrowing costs – capitalisation rate

Since Ausgrid borrows funds generally for investment programs and day to day operations, a capitalisation rate is used which is based on a weighted average borrowing costs including government guarantee fee over the average of previous period debt balances. The rate is calculated and provided by Business Performance and Analysis Manager on a quarterly basis.

4.3 Commencement of capitalised borrowing costs

4.3.1 Qualifying capital projects

- Each business division has to identify any capital projects which meet the criteria stated in 4.1 above and complete the capital projects and expenditure section of the "Borrowing Costs Template" (Appendix A). The template will need to be submitted to the Corporate Accounting section of Corporate Finance on a quarterly basis.

4.3.2 Calculation

- The calculation of interest on projects will commence from the IPE date.
- Capitalised borrowing cost is computed quarterly using the "Borrowing Costs Template" (Appendix A). The capitalisation rate calculated from 4.2 above is applied to the average life to date capital expenditure of the project.
- Corporate Accounting section of Corporate Finance is responsible for the calculation of the amount of borrowing costs capitalised and post the amount to a separately identified "borrowing costs elements'. The capitalised borrowing costs will be included under Assets under Construction – AUC. The Interest Expenses in the Statement of Comprehensive Income represents the un-capitalised portion of borrowing costs.

- The amount of borrowing costs that Ausgrid capitalises during a period shall not exceed the amount of borrowing costs expenses incurred during the period.
- Please refer to SAT123 Appendix B Capitalisation of Borrowing Costs to AUC for details.

4.4 Cessation of capitalised borrowing costs

- Cessation of capitalising of borrowing costs for the 'qualifying project' will be when the project is "technically closed" (TECO). This is the date by which substantially all the activities necessary to prepare the asset are complete.
- The calculation of capitalising borrowing costs will also cease when there is any major suspension of the project.
- Business division will have to notify Corporate Accounting section of Corporate Finance of the above circumstances via the "Borrowing Costs Template" (Appendix A)
- If there is no capital expenditure incurred in a quarter between the IPE date and TECO date, Financial accounting group should follow up with Division to investigate whether any major suspension occurs that capitalisation of borrowing costs should be ceased.

4.5 Capitalised borrowing costs assets

- When the qualifying project is completed and the relevant project close out Form has been submitted to Fixed Asset Section of Corporate Finance, the corresponding borrowing costs component of that project will have to be settled from AUC to fixed assets.
- The 'borrowing cost asset' will be a sub-asset to the main asset. It is separately identifiable and is excluded from the Tax Asset Base. Borrowing costs are not included in the Tax Asset Base to the extent they have been deducted for tax purposes.
- The borrowing costs assets will be depreciated over the same useful lives of the qualifying main assets.
- Please refer to SAT123 Appendix C Capitalisation of Borrowing Costs – from AUC to Assets for details.

4.6 Impairment

Corporate Finance will calculate and perform impairment test on cash generating unit (CGU) basis. Ausgrid should continue to capitalise such borrowing costs even

if the carrying amount of the asset exceeds its recoverable amount. However, the carrying amount of the asset, including the borrowing cost assets should be written down to recognise impairment losses in such case.

4.7 Responsibility

Summary of Process	Process Owners
1. Calculation of capitalisation rate on a quarterly basis	Performance and Analysis Manager, Finance & Corporate
2. Provision of information for capital projects over $10M to Financial Accounting group on a quarterly basis by completing the 'borrowing costs template', and to advise any cessation or suspension of capital projects.	Finance Manager (or equivalent) of each business division
3. Calculation of borrowing costs to be capitalised on a quarterly basis	Senior Financial Accountant, Finance & Corporate
4. Cessation/ Suspension of capitalised borrowing costs – to follow up if no project costs incurred for the quarter.	Senior Financial Accountant, Finance & Corporate
5. Settlement to Capitalised borrowing costs assets	Fixed Assets Section, Finance & Corporate

5. REPORTING REQUIREMENTS

5.1 Statutory reporting

Ausgrid must disclose in the annual financial statements:-

a) the amount of borrowing costs capitalised during the period;

b) the accounting policy and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation in the significant accounting policies notes to the financial statements; and

c) capitalised borrowing costs for the year are to be included in the "Additions" and in the balances of Assets under Constructions (AUCs)[3] in the Property, Plant and Equipment (PP&E) note 11 of the financial statements.

[3] Additions and AUC balances are disclosed in three major categories – Land and Buildings, System Assets, Other assets. Capitalised borrowing costs will be mainly incurred in System assets.

5.2 NSW Treasury reporting

Reporting to NSW Treasury should agree with the Statutory Accounts in that capitalised borrowing costs should be included. Currently there are two capital expenditure reports submitted to NSW Treasury:-

- CAPTOES – prepared by asset categories and not by projects, capitalised borrowing costs to be reported in "others".
- NSW major capital projects reporting system (MCPRS) – one page major capital expenditure reports at high level, capitalised borrowing costs to be reported under "other major projects".

5.3 Tax accounting and reporting

Capitalised borrowing costs only impact the Accounting book value (depreciation area 01) and Historical book value (depreciation area 04), but does NOT affect the Tax book value (depreciation 15).

Tax section can refer to the balance of a new expense account - Borrowing cost transferred to AUC to complete the monthly tax effect accounting.

5.4 Regulatory reporting

Capitalised borrowing costs should NOT be included in regulatory assets / capital expenditure in the regulatory account, as the regulatory return/ submission has its own calculation of weighted average cost of capital.

5.5 Management reporting

Borrowing costs are not funded for a project - that is, when a major capital project is submitted to the Board or management for approval, borrowing costs are not included. Therefore, capitalised borrowing costs are reflected as a separate subtotal item in the Capital Expenditure page of the monthly financial report submitted to management.

6. SYSTEM IMPLEMENTATION

Part 1 – Capitalisation to Borrowing Costs AUC

- No SAP system change. Calculation of interest using spreadsheet and postings via journals upload to SAP.
- Refer to separate document - SAT123 Appendix B

Part 2 – Settlement of Borrowing Costs AUC to Borrowing Costs Assets

- SAP system changes –

i. a new asset transaction type ZBC is created to exclude the asset value from Tax book 15.

ii. A new Reporting Attribute "Borrowing Costs Funded" to separately identify the borrowing costs assets.

- Refer to separate document SAT123 Appendix C for details.

7. REFERENCES

- Revised AASB 123 *Borrowing Costs* (June 2007)
- Revised AASB 123 Borrowing Costs – Proposed Ausgrid Policy, dated 25.02.2009 (Paper submitted to Feb 09 FEC meeting)

Capitalisation of Borrowing Costs - Calculation Template	Statement : SAT 123 Appendix A Page : 10 of 10 Version : 2.0 Issue Date :15.11.2011 Status : Final Issued by : Corporate Finance

8. APPENDIX A – CAPITALISED BORROWING COSTS CALCULATION TEMPLATE

EA Capital Projects>$10M - Project Commenced On Or After 1 July 2009.
Current Period: Sept 09 - Dec 09
Division

	Information to be provided by Divison												Corporate Finance		
	Project Number	Project Description	Estimated Total Project Cost($> 10M	Estimated Practical Completion Date	IPE Date (Per SAP)	TECO date	Suspen-sion date	Actual Project Cost				Partial completion-project costs capitalised	Borrowing Costs capitalisation rate (annualised %)	Average Project Balance	Capitalised Borrowing Costs for the quarter $
								Opening balance - Prior Year (Prior to July 2009 (A)	Current Year - Prior Period (e.g Jul-Sep 09) (B)	Current Period (Oct - Dec 09) (C)	Life to Date Balance (A) + (B) +(C)				
			note1,3-4	note2						note 6		(D) note 7	(E) note 8	(F)=(A)+(B)+(C)/2-D note 5	(F) x (E) / 4
1	Project 123	example	$12M	30.06.2012	01.08.2009			0	0	1,000,000.00	1,000,000.00	-	8%	500,000.00	10,000.00
2															
3															
4															
5															
Total															10,000.00

Final checking by Corporate Finance

Borrowing cost capitalised for the period should NOT exceed the borrowing costs incurred during the period.

IPE = Instruction for Project Execution
PC = Practical Completion Date
TECO = Technical Completion Date

Notes:-

1 Estimated total project cost must be greater than $10M
2 The time period between The IPE date and the estimated practical completion date must exceed 12 months.
3 Customer/ Government Funded CAPEX and Land are excluded
4 CAPEX funded by Government Grants are excluded
5 Assume project costs are evenly incurred during the period and therefore a simple average balance is used for the borrowing cost calculation.
6 If no expenditure incurred during the quarter, Corporate Finance should follow up with Division whether any major suspension exists that capitalisation of borrowing costs should be ceased.
7 If the project costs have been partially capitalised to assets, the costs should be deducted from the calculation.
8 Capitalisation rate is provided by Manager - Business Performances and Analyis. The rate includes government gurarantee fee.

Capitalisation of Borrowing Costs to AUC	Statement : SAT 123 Appendix B Page : 1 of 10 Version : 2.0 Issue Date : 15.11.2011 Status : Final Issued by : Corporate Finance

1. OBJECTIVE

This SAT is the Appendix B to SAT 123 Capitalised Borrowing Costs to provide Part 1 of the system implementation to capitalised borrowing costs – Transfer of capitalised borrowing costs to Assets Under Construction (AUC).

2. CAPITALISATION – BORROWING COST – CAPITAL PROJECT

2.1 Ausgrid capital project template – qualifying asset

Definition

Qualifying asset is any new individual capital project (not program), with an Instruction of Project Implementation (IPE) date commencing on or after 1 July 2009 (i.e. when project is at execute stage), and the estimated project cost is greater than $10M[1] and takes more than twelve months to complete.

The capital project includes:-

- System capital projects
- Non system building projects
- IT capital projects

BUT EXCLUDES:

- Purchase of system and non-system land. (It is because land is fair valued at year end that the associated borrowing costs is not required to be capitalised.)
- Capital project or a part of it which is funded by government grant or customer capital contribution.

Project template

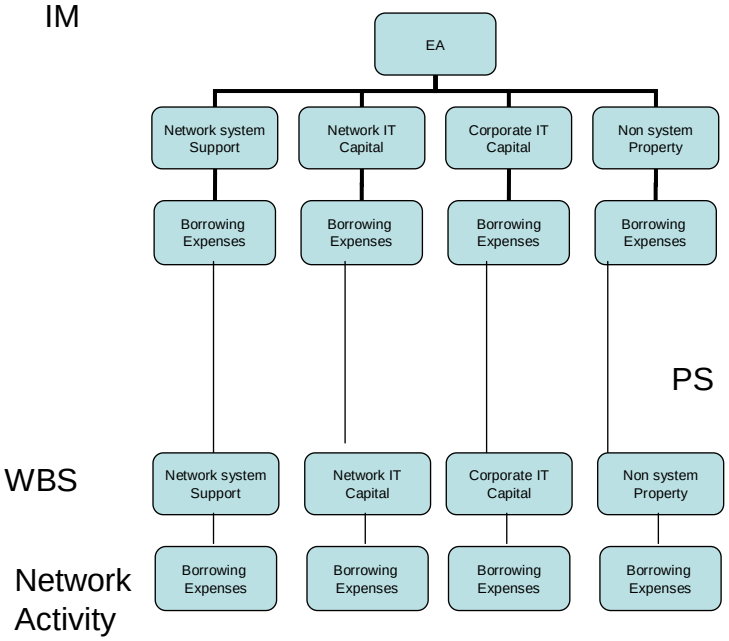
- Each division provides the borrowing costs template for qualifying projects on a quarterly basis to Corporate Finance. (A sample document - Attachment 1 – Capitalised Borrowing Costs Template June 2010)

[1] In accordance with the Investment Governance Framework published December 2008, definition of major capital works projects are those having a cost estimate greater than $10 million.

2.2 Borrowing cost node

- A 'Borrowing Cost' node has been created under each of the four major categories of the Ausgrid Capital Investment Program (IM).
  1. Network system capital – support program (SY.01.07.06)
  2. Network IT capital (IT.01.08)
  3. Corporate IT capital (IT.03.09)
  4. Corporate - Non system property (PR.01.06)
- A 'Borrowing Costs - Capital Project' SJ00049 is created to capture the capitalised borrowing costs, with level 1 WBS element linked to respective IM borrowing costs node. The project is attached to Profit Centre 40016, equivalent to cost centre 8510– "Corporate Sundry Trading accounts".

Borrowing Expenses



- Project created for borrowing costs
- Level 1 WBS elements linked to IM borrowing cost nodes
- Journal entry for borrowing costs posted to network activity on a periodic basis

2.3 Chart of Accounts

Account No.	Account Description
155025	AUC – PPE – Borrowing Costs
155125	AUC – Intangible – Borrowing Costs
775210	Capitalised Borrowing Costs
775220	Borrowing Costs Transferred to Capital
775230	Transfer Borrowing Costs to AUC

Note: The 775 series accounts are currently excluded from the "PMPS" cost element group structure for CAPEX reporting.

2.4 Journal entries

Two entries are required to capitalise borrowing costs on a quarterly basis, in accordance with the month end time table:-

Entry 1 – Post borrowing costs to the Capital Project SJ00049 (Nil impact to P/L for this entry)

Entry 2 – Transfer the borrowing costs from Capital Project SJ00049 to AUC (Interest expense is reduced by the amount transferred to AUC)

2.4.1. Entry 1 - Post borrowing costs to Capital Project SJ00049

- Capitalised borrowing costs is calculated for each qualifying project provided by divisions as per the 'borrowing costs template' (Attachment 1)
- Since there is a centralised borrowings arrangement for Ausgrid, borrowing costs do not form part of the CAPEX funding budget. Capitalised borrowing costs are therefore not booked back to each 'qualifying project'. Instead, they are booked to one 'Borrowing Costs – Capital Project' SJ00049 under Corporate Finance.
- A network order 900016326 is created within Project SJ00049 for capturing borrowing costs related to network system capital projects (WBS level 1). In order to maintain transparency of the amount booked in the Borrowing Costs project and to facilitate the future transfer of costs to AUC and settlement to Asset Accounting Module, a separate network activity(eg: 0001) is created for each qualifying project.
- For example, capitalised borrowing cost of $21K is calculated for project SJ05278 – Rose Bay 132KV Feeders, $134K for SJ05319 Charlestown 132KV Zone. (From Attachment 1 – Capitalised Borrowing Costs Template June 2010)

- A network order/ activity is 900016326/0001 is set up in SJ00049 to capture the $21K for SJ05278, and any future borrowing costs calculated for that project.
- This linkage is demonstrated in the table below:-

Qualifying project	Calculated borrowing costs to be capitalised for a period	SJ00049 –Borrowing Costs Capital Project Corresponding Network Order /Activity	
		Number	Description
SJ05278- Rose Bay 132KV Feeders	$21K	900016326/0001	Borrowing costs for SJ05278
SJ05319- Charlestown New 132/11kV Zone	$134K	900016326/0002	Borrowing costs for SJ05319

- A summarised accounting entry 1 is illustrated in the table below. (The complete entry in a journal upload format is included in Attachment 2 – Upload Journal Template for June 2010)

Debit / Credit	Account	Network order / cost centre	Network Activity	Network Activity Description	Amount $K
DR	775210 Capitalised Borrowing costs	900016326	0001	Borrowing costs for SJ05278	21
DR	775210 Capitalised Borrowing costs	900016326	0002	Borrowing costs for SJ05319	134
CR	775220 Borrowing costs Transferred to Capital	cc 8510	-	-	(155)

- The borrowing costs details booked in project SJ00049 can be obtained from SAP report SAP Transaction: S_ALR87013542 by selection of relevant reporting period and cost elements. (Refer to Attachment 3 – SAP Report)

2.4.2. Entry 2 - Transfer the borrowing costs from Capital Project SJ00049 to AUC

- After the borrowing costs transferred to capital project via Entry 1, the costs will need to be transfer to the AUC – Borrowing costs balance sheet account.
- This transfer journal – Entry 2 is illustrated in the table below. (The complete entry in a journal upload format is included in Attachment 4)

Debit / Credit	Account	Network order / cost centre	Network Activity	Network Activity Description	Amount $K
DR	155025 AUC – PPE – Borrowing Costs				155
CR	775230 Transfer Borrowing costs to Capital	900016326	0001	Borrowing costs for SJ05278	(21)
CR	775230 Transfer Borrowing costs to Capital	900016326	0002	Borrowing costs for SJ05319	(134)

2.5 Reporting outcome

Capitalisation of Borrowing Costs

After Entry 1 & 2 - Costing of Borrowing Costs to Capital and Transfer to Assets Under Construction (AUC)

Fixed Assets		Total (AUD)	
AUC - PPE			
155125 AUC - Intangible - Borrowing Costs		0	
155025 AUC - PPE - Borrowing Costs	Entry 2	155,000	
Assets			**155,000**
Interest Expense			
775210 Capitalised Borrowing Costs	Entry 1	155,000	
775220 Borrowing Costs Tsf'd to Capital	Entry 1	-155,000	
775230 Tfr Borrowing Costs to Capital	Entry 2		-155,000
Profit before Tax and Dividend			**-155,000**

3. ROLES & RESPONSIBILITIES

- Divisional Finance is responsible for the update of the borrowing costs template for qualifying projects.
- Financial Strategy Group of Corporate Finance is responsible for the maintenance of the Corporate Borrowing Costs – Capital Project SJ00049, including setting up of new network order and activity.
- Financial Accounting Group, Corporate Finance is responsible for the calculation of capitalisation borrowing costs, preparation of Entry 1 and related accounts reconciliation.
- Fixed Assets Group, Corporate Finance is responsible for Entry 2 and related accounts reconciliation.

Attachment 1 – Capitalised Borrowing Cost – Calculation Template

EA Capital Projects> $10M - Project Commenced On Or After 1 July 2009.

Current Period: Jul 2009- Jun 2010

Division

			Information to be provided by Divison										Corporate Finance			
	Project Number	Project Description	Estimated Total Project Cost($> 10M $M	Estimated Practical Completion Date	IPE Date (Per SAP)	TECO date	Suspen-sion date	Actual Project Cost $				Partial completion-project costs capitalised $	Capitalised Borrowing Costs for the Jul - Dec period $	Capitalised Borrowing Costs for the Mar quarter $	Capitalised Borrowing Costs for the Jun quarter $	Capitalised Borrowing Costs for Jun 2010 YTD $
								Opening balance - Prior Year (Prior to July 2009 (A)	Current Year - Prior Period (e.g Jul 09-Mar10) (B)	Current Period (Apr- Jun 10) (C)	Life to Date Balance (A) + (B) +(C)	(D)				
1	SJ-05278	Rose Bay 132kV Feeders	80.30	Mar-2013	Sep-09	N/A		67,584.75	432,101.38	67,541.01	567,227.14	-	4,238.74	6,526.47	10,882.53	**21,647.74**
2	SJ-05319*	Charlestown New 132/11kV Zone	31.10	Dec-2011	Sep-09	N/A		650,095.81	1,377,704.19	1,321,826.80	3,349,626.80	-	43,216.59	35,733.14	54,849.75	**133,799.48**
3	SJ-05651	Crows Nest 132kV Conversion	18.60	Dec-2012	Oct-09	N/A		201,931.33	55,641.25	359,378.81	617,611.39	-	16,709.66	8,962.24	8,927.49	**34,599.38**
4	SJ-04726	Engadine 132/11kV Zone Substation	22.90	Dec-2012	Oct-09	N/A		242,353.08	1,281,354.00	1,419,190.14	2,943,503.22	-	19,420.18	22,795.82	45,571.73	**87,787.72**
5	SJ-05747	Engadine New Feeders to 132kV Zone	23.40	Dec-2012	Oct-09	N/A		10,560.09	43,008.56	8,937.00	62,505.65	-	-	1,035.32	1,183.96	**2,219.28**
6	SJ-05807	Brandy Hill 132/11kV Zone	19.74	Jun-2013	Nov-09	N/A		105,347.59	653,807.63	292,596.89	1,052,352.11	-	12,217.35	12,791.34	18,483.49	**43,492.18**
7	SJ-05663	Crows Nest 132kV Feeders	17.85	Jun-2012	Nov-09	N/A		66,665.41	144,175.76	497.85	211,339.02	-	3,322.14	3,136.26	4,306.24	**10,764.63**
8	SJ-05801	Replacement of 132kV Feeders 91M/3	214.40	Jan-2014	Dec-09	N/A			-		-	-	-	-	-	-
9	SJ-05471	Replacement of 132kV Feeders 91L & 9		Jan-2014	Dec-09	N/A		229,442.03	3,257,190.36	1,626,710.14	5,113,342.53	-	26,166.97	46,290.01	87,719.74	**160,176.73**
10	SJ-05586	North Sydney 11kV SG Replacement	75.90	Nov-2014	Dec-09	N/A		136,532.09	5,336,714.75	4,105,334.96	9,639,181.80	-	43,038.44	75,926.56	154,758.77	**273,723.77**
11	SJ-05968	North Sydney 132/11kV Conversion		Nov-2014	Dec-09	N/A		5,565.68	75,132.82	623,252.59	704,011.09	-	1,278.46	1,407.47	8,004.65	**10,690.59**
12	SJ-05634	Aberdeen New Zone and 66kV Fdrs	20.72	Nov-2012	Dec-09	N/A		198,533.39	1,522,643.86	1,206,945.26	2,928,128.51	-	21,990.65	26,542.59	47,422.98	**95,956.22**
13	SJ-06013	Lindfield 33kV Cable Replacement	16.04	Apr-2012	Dec-09	N/A		315.25	306,855.89	350,774.66	657,345.80	-	3,068.24	4,663.95	9,844.19	**17,576.38**
14	SJ-04866**	Broadmeadow Zone	26.40	Sep-2012	Dec-09	N/A		189,773.13	689,021.90	812,525.73	1,691,320.76	-	14,794.89	14,444.77	26,215.18	**55,454.84**
15	SJ-05732	Empire Bay New 66/11kV Zn Stage 1	18.70	Jul-2012	Dec-09	N/A		42,459.72	695,723.23	306,517.72	1,044,706.67	-	-	12,148.08	18,185.54	**30,333.62**
16	SJ-06106	Lindfield STSS 132kV RMCB	20.40	May-2012	Dec-09	N/A			643,378.35	30,724.40	680,103.35	-	2,194.48	7,710.09	13,560.72	**23,465.28**
17	SJ-05942	Croydon Zone 132kV Conversion	22.90	May-2014	Feb-10	N/A			404,570.28	543,198.13	947,768.41	-		5,711.53	13,793.85	**19,505.39**
18	SJ-05946	Leichardt 132kV Zone Substation Conv	19.70	Apr-14	Feb-10	N/A		1,763.64	330,464.60	771,478.84	1,103,707.08	-		5,003.83	14,646.54	**19,650.37**
19	SJ-05649	Tomago New 33/11kV Zn	17.20	Nov-12	Mar-10	N/A		104,455.34	823,538.08	1,455,266.72	2,383,260.14	-		12,398.95	33,897.19	**46,296.14**
20	SI-05733	Empire Bay New 66kV Fdr	30.6	Sep-12	Apr-10	N/A			42,016.50	24,511.95	66,528.45	-			1,107.16	**1,107.16**
21	SJ-05277	Hurstville North 132/11kV Zone Replace	31.1	Oct-12	Apr-10	N/A		3,377.86	1,493,722.53	2,103,302.13	3,601,602.58	-			52,012.89	**52,012.89**
22	SJ-05969	North Sydney 132kV Feeder Augmenta	14.3	Dec-12	Apr-10	N/A		684.38	11,712.08	9,234.71	21,631.17	-			347.08	**347.08**
23	SJ-05740	Canterbury STS 33kV S/G Replacemer	45.4	Jun-14	Jun-10	N/A		48,546.66	478,374.57	443,663.84	970,585.07	-			15,274.56	**15,274.56**
24	SJ-05905	Canterbury STS 132kV Busbar Refurbis		Jun-14	Jun-10	N/A			968.62	11,787.33	12,755.95	-			139.99	**139.99**
Total			**787.65**					**2,367,853.23**	**20,111,894.45**	**17,896,997.61**	**40,376,745.29**	-	**211,656.78**	**303,228.42**	**641,136.23**	**1,156,021.42**

SJ 5319 " Assoc 11kV Works ($2.6M) covered by WBS SJ 06071 which is being managed by DOR
$20.9M was approved on this project in Sep 09 for construction of the substation, and a further $10.2M in Feb 10 for the 132kV Feeders

SJ 4866 "" Assoc 11kV Works ($5.9M) covered by WBS SJ 00008 which is being managed by DOR

IPE = Instruction for Project Execution
PC = Practical Completion Date
TECO = Technical Completion Date

Notes:-

1. Estimated total project cost must be greater than $10M
2. The time period between The IPE date and the estimated practical completion date must exceed 12 months.
3. Customer/ Government Funded CAPEX and Land are excluded
4. CAPEX funded by Government Grants are excluded
5. Assume project costs are evenly incurred during the period and therefore a simple average balance is used for the borrowing cost calculation.
6. If no expenditure incurred during the quarter, Corporate Finance should follow up with Division whether any major suspension exists that capitalisation of borrowing costs should be ceased.
7. If the project costs have been partially capitalised to assets, the costs should be deducted from the calculation.
8. Capitalisation rate is provided by Manager - Business Performances and Analysis. The rate includes government gurarantee fee.

Borrowing cost capitalised for the period should NOT exceed the borrowing costs incurred during the period.

Attachment 2 – SAP Upload Journal Template for Entry 1 – Transfer of Borrowing Costs to Borrowing Costs- Capital Project SJ00049

SAP Batch Journal Summary

Go! Create file for SAP

FB01 Journal Entry

Clear Clear Journals

Company	EA01	SAP Logon ID	T44093
DocType	SA	Batch Sequence	001
Posting Date	16-Jul-2010	File Name	F_T44093_J001.TXT
Reference Doc No.		Directory	C:\DOCUME~1\t44093\LOCALS~1\Temp\notes4A1539
Reversal Date		Batch Description	
Debit Total	1,156,021.43	Difference	None
Credit Total	1,156,021.43		None
Number of Account Entries	24	Reversal Reason	
Calculate Tax	TRUE	Amounts In Error	0

Line	Acct	CC	Order/Network	Activity	Debit/40	Credit/50	Tax Cd	Tax Amount	Description	Allocation	Quantity	UoM	Pkey
1	775210		900016326	0001	$21,647.74				cap borrow cost Jun10 YTD re project SJ-05278				40
2	775210		900016326	0002	$133,799.48				cap borrow cost Jun10 YTD re project SJ-05319				40
3	775210		900016326	0003	$34,599.38				cap borrow cost Jun10 YTD re project SJ-05651				40
4	775210		900016326	0004	$87,787.72				cap borrow cost Jun10 YTD re project SJ-04726				40
5	775210		900016326	0005	$2,219.28				cap borrow cost Jun10 YTD re project SJ-05747				40
6	775210		900016326	0006	$43,492.18				cap borrow cost Jun10 YTD re project SJ-05807				40
7	775210		900016326	0007	$10,764.83				cap borrow cost Jun10 YTD re project SJ-05863				40
8	775210		900016326	0009	$160,176.73				cap borrow cost Jun10 YTD re project SJ-05471				40
9	775210		900016326	0010	$273,723.77				cap borrow cost Jun10 YTD re project SJ-05586				40
10	775210		900016326	0011	$10,690.59				cap borrow cost Jun10 YTD re project SJ-05966				40
11	775210		900016326	0012	$95,956.22				cap borrow cost Jun10 YTD re project SJ-05634				40
12	775210		900016326	0013	$17,576.38				cap borrow cost Jun10 YTD re project SJ-06013				40
13	775210		900016326	0014	$55,454.84				cap borrow cost Jun10 YTD re project SJ-04866				40
14	775210		900016326	0015	$30,333.62				cap borrow cost Jun10 YTD re project SJ-05732				40
15	775210		900016326	0016	$23,485.28				cap borrow cost Jun10 YTD re project SJ-06106				40
16	775210		900016326	0017	$19,505.39				cap borrow cost Jun10 YTD re project SJ-05942				40
17	775210		900016326	0018	$19,650.37				cap borrow cost Jun10 YTD re project SJ-05946				40
18	775210		900016326	0019	$46,296.14				cap borrow cost Jun10 YTD re project SJ-05649				40
19	775210		900016326	0020	$1,107.16				cap borrow cost Jun10 YTD re project SJ-05733				40
20	775210		900016326	0021	$52,012.89				cap borrow cost Jun10 YTD re project SJ-05277				40
21	775210		900016326	0022	$347.08				cap borrow cost Jun10 YTD re project SJ-05969				40
22	775210		900016326	0023	$15,274.56				cap borrow cost Jun10 YTD re project SJ-05740				40
23	775210		900016326	0024	$139.99				cap borrow cost Jun10 YTD re project SJ-05905				40
24	775220					$1,156,021.43			capitalised borrowing costs Jun10 YTD				50
25													
45													
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Page 1

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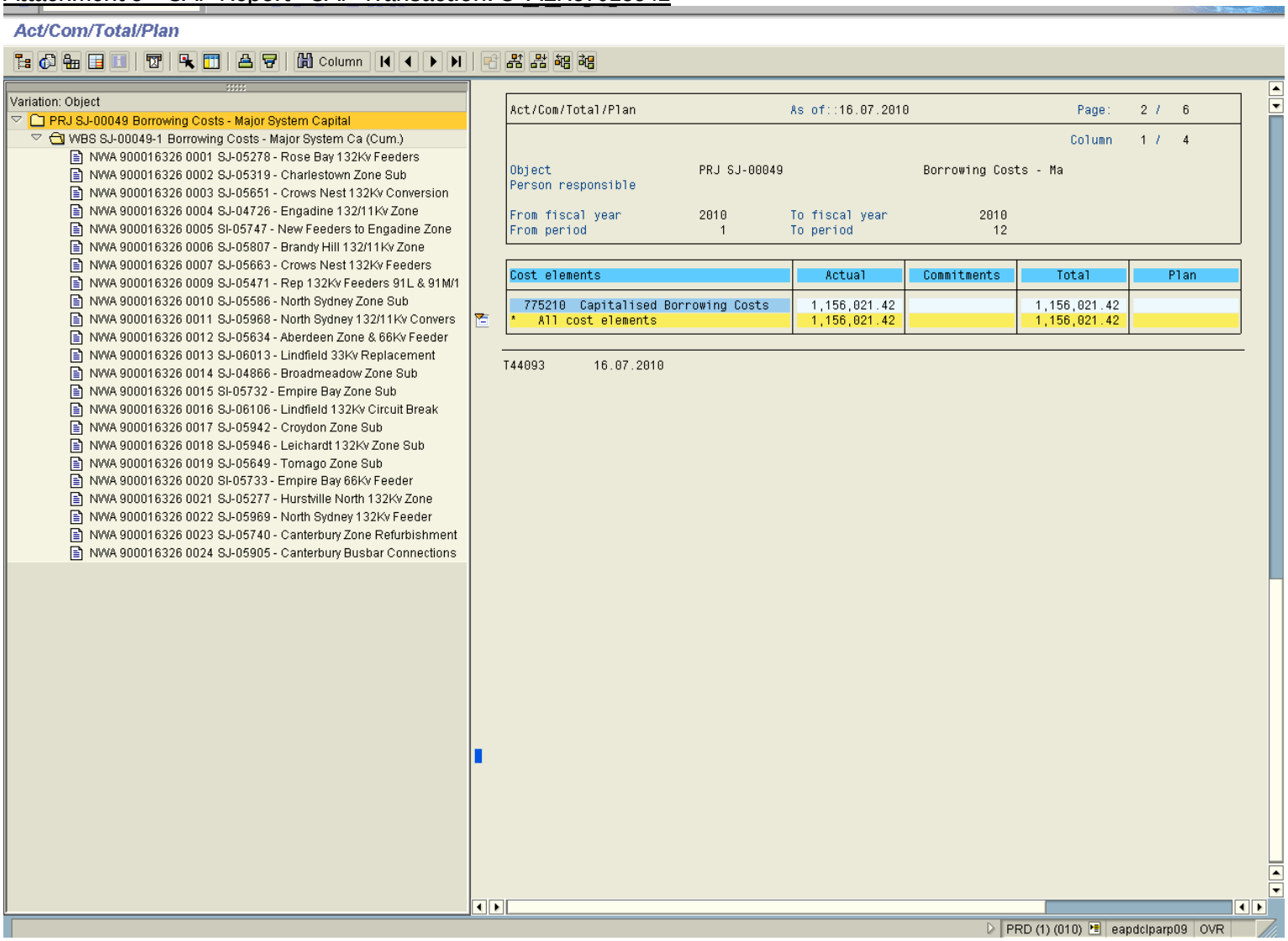
Attachment 3 – SAP Report - SAP Transaction: S_ALR87013542



Attachment 4 – SAP Upload Journal Template for Entry 2 – Transfer of Borrowing Costs from Borrowing Costs- Capital Project SJ00049 to AUC

SAP Batch Journal Summary

					Company	EA01							
					DocType	SA							
					Posting Date	19-Jul-2010							
					Reference Doc No.								
					Reversal Date		Difference						
					Debit Total	1,156,021.43	None						
					Credit Total	1,156,021.43	None						
					Number of Account Entries	24	Reversal Reason						
					SAP Logon ID	T44093		Version					
					Batch Sequence	001		6.00					
					File Name	F_T44093_J001.TXT							
					Directory	C:\DOCUME~1\t44093\LOCALS~1\Temp\notes4A1539							
					Batch Description								
					Calculate Tax	TRUE							
								Amounts In Error	0				
Line	Acct	CC	Order/Network	Activity	Debit/40	Credit/50	Tax Cd	Tax Amount	Description	Allocation	Quantity	UoM	Pkey
1	775230		900016326	0001	$21,647.74				cap borrow cost Jun10YTD re project SJ-05278				50
2	775230		900016326	0002	$133,799.48				cap borrow cost Jun10YTD re project SJ-05319				50
3	775230		900016326	0003	$34,599.38				cap borrow cost Jun10YTD re project SJ-05651				50
4	775230		900016326	0004	$87,787.72				cap borrow cost Jun10YTD re project SJ-04726				50
5	775230		900016326	0005	$2,219.28				cap borrow cost Jun10YTD re project SI-05747				50
6	775230		900016326	0006	$43,492.18				cap borrow cost Jun10YTD re project SJ-05807				50
7	775230		900016326	0007	$10,764.63				cap borrow cost Jun10YTD re project SJ-05663				50
8	775230		900016326	0009	$160,176.73				cap borrow cost Jun10YTD re project SJ-05471				50
9	775230		900016326	0010	$273,723.77				cap borrow cost Jun10YTD re project SJ-05586				50
10	775230		900016326	0011	$10,690.59				cap borrow cost Jun10YTD re project SJ-05968				50
11	775230		900016326	0012	$95,956.22				cap borrow cost Jun10YTD re project SJ-05634				50
12	775230		900016326	0013	$17,576.38				cap borrow cost Jun10YTD re project SJ-06013				50
13	775230		900016326	0014	$55,454.84				cap borrow cost Jun10YTD re project SJ-04856				50
14	775230		900016326	0015	$30,333.62				cap borrow cost Jun10YTD re project SI-05732				50
15	775230		900016326	0016	$23,465.28				cap borrow cost Jun10YTD re project SJ-06106				50
16	775230		900016326	0017	$19,505.39				cap borrow cost Jun10YTD re project SJ-05942				50
17	775230		900016326	0018	$19,650.37				cap borrow cost Jun10YTD re project SJ-05946				50
18	775230		900016326	0019	$46,296.14				cap borrow cost Jun10YTD re project SJ-05649				50
19	775230		900016326	0020	$1,107.16				cap borrow cost Jun10YTD re project SI-05733				50
20	775230		900016326	0021	$52,012.89				cap borrow cost Jun10YTD re project SJ-05277				50
21	775230		900016326	0022	$347.08				cap borrow cost Jun10YTD re project SJ-05959				50
22	775230		900016326	0023	$15,274.56				cap borrow cost Jun10YTD re project SJ-05740				50
23	775230		900016326	0024	$139.99				cap borrow cost Jun10YTD re project SJ-05905				50
24	155025					$1,156,021.43			capitalised borrowing costs Jun10 YTD				40
25													
26													
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Capitalisation of Borrowing Costs – From AUC to Assets	Statement : SAT 123 Appendix C Page : 1 of 2 Version : 1.0 Issue Date : 07.11.2011 Status : Final Issued by : Corporate Finance

1. OBJECTIVE

This SAT is the Appendix C to SAT 123 Capitalised Borrowing Costs to provide Part 2 of the system implementation to capitalised borrowing costs – Transfer from Assets Under Construction (AUC) to Assets.

This Appendix needs to be read in conjunction with SAT123 Capitalisation of Borrowing Costs.

2. BORROWING COSTS ASSET

2.1 Accounting standard requirement

- In accordance with Australian Accounting Standard AASB 123 Borrowing Costs, the borrowing costs for a qualifying asset have to be capitalised as part of the costs of that asset.
- When the qualifying project is completed and settled to asset, the relevant borrowing costs will need to be transferred from AUC Borrowing costs to an asset.
- However, the value of this borrowing costs asset has to be excluded from the tax book value in Asset Accounting Module as borrowing costs are not allowed as asset for tax purposes.

2.2 SAP system change

- A new transaction type ZBC is created for the asset acquisition entry - this will enable the acquisition cost to be excluded from Book 15 (Tax book) while posting to borrowing cost assets to Book 01 (accounting book) , Book 04 (historical book) and Book 50 (network book) only
- A new funding reporting attribute 05 ‘Borrowing Cost Funded’ is created to allow for reporting on borrowing costs assets and also to assist reporting for exclusion of borrowing costs.
- Asset Accounting Reports under Business Intelligence (BI) will be automatically updated with the new reporting attribute.

Capitalisation of Borrowing Costs – From AUC to Assets	Statement : SAT 123 Appendix C Page : 2 of 2 Version : 1.0 Issue Date : 07.11.2011 Status : Final Issued by : Corporate Finance

3. ROLES & RESPONSIBILITIES

Summary of business process	Process owners
1. Notify Fixed Assets Team via the 'Project Close-out Form' that the project is a 'qualifying project' which is subject to capitalisation of borrowing costs calculation.	Divisional Finance Team
2. Refer to the AUC- Borrowing Costs – project listings for the accumulated amount of borrowing costs capitalised for that specific project.	Fixed Assets Team – Corporate Finance
3. Create a sub-asset to the main asset capitalised as part of a specific project (e.g. Rose Bay) for the borrowing costs. The sub-asset will be named as "borrowing costs- name of the asset" (i.e. Rose Bay).	Fixed Assets Team – Corporate Finance
4. Post the asset acquisition entry for the borrowing costs sub-asset using:- ▪ asset transaction type ZBC so that the borrowing costs asset can be excluded from Tax book 15, and ▪ borrowing costs funded attribute 05 so that borrowing costs assets can be easily identified via asset reporting.	Fixed Assets Team – Corporate Finance
5. This borrowing costs asset will be subject to the same depreciation rate as the main asset and will be retired together with the main asset upon asset disposal.	Fixed Assets Team – Corporate Finance

3. **SAT130 Managing AUC to Fixed Assets Partial Capitalisation v2.0 final.doc**

Managing AUC to Fixed Assets - Partial Capitalisation	Statement : SAT 130 Page : 1 of 2 Version : 2.0 Issue Date : 08.12.2011 Status : Final Issued by : Corporate Finance

1. OBJECTIVE

This Statement of Accounting Treatment (SAT) is to provide guidance on partial capitalisation of major capital projects in line with Ausgrid Fixed Assets Policy & Principles (FAP001).

This SAT does not apply to "standing" projects, where settlement to assets is achieved through use of capital work orders or by settlement to pooled assets on a regular basis.

2. AUSTRALIAN ACCOUNTING STANDARD REQUIREMENT

The accounting standard makes it very clear when the depreciation of assets should commence - "Depreciation of an asset begins when it 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." (AASB 116.55 *Property Plant & Equipment*, emphasis added)

3. AUSGRID APPLICATION GUIDANCE

In accordance with Ausgrid Fixed Assets Policy & Principles (FAP001),

"Constructed assets are assets built from component parts over a period of time. Costs are treated as work in progress (WIP) and are booked to SAP capital projects. When the constructed asset has been commissioned and is in use, the costs will be settled from WIP to assets." (Section 5.10 Acquisition, FAP001). Depreciation then commences.

Therefore, the timing of settling WIP / Assets under Constructions (AUC) to Fixed Assets should be the point when the asset/s or distinct parts of the asset are 'available for use' or 'fit for intended purpose' in accordance with accounting standard.

For a major capital project, there are various phases of construction corresponding to project milestones. It will be logical to recognise major components of assets during the course of project execution that meet the recognition requirement of the accounting standard. This process of settling projects by stages to distinct asset components is called partial capitalisation.

When a project manager identifies that the major capital project reaches one of the following points/ stages, that completed part of work will warrant a capitalisation to assets:-

1. Partial capitalisation - Completion of civil works - This includes traditional civil works such as buildings and roads, as well as less common scenarios such as construction of tunnels, and may also include feeder crossings (where civil works are done to allow feeders to cross beneath major roads). The value of the completed civil works should be settled to assets.

2. Partial capitalisation - Acquisition of transformers – When transformers are received and delivered to site, the value of the transformer may be recognised as a separate asset in accordance with existing Ausgrid Fixed Assets policy. The value of the transformer acquired should be settled to assets.

3. Partial capitalisation - Other significant items - In relation to other major capital projects, such as an IT project – an asset should be recognised at the completion of certain key development phases (e.g. the commissioning of Data Centres 1 and 2 under the Data Centre Consolidation Program); or at times of acquisition of a specialised assets, such as the 4G Spectrum Licence (intangible asset); or a property project when separable parts of contracts are completed and handed over to Ausgrid for use (e.g.: open training yard area, amenities, pit areas & undercover training structure of Ausgrid Learning Centre). The defined value of the identified item should be settled to assets.

4. Practical completion - Practical completion of the project indicates that electrical fitout or connections have been completed and the site is fit for purpose, and the asset is 'commissioned', bearing load, thus forming a recognisable part of the Ausgrid Network. The value of the electrical fitout, connections, project management, and associated feeder works should be settled to assets.

   (Please also refer to SAT129 – Managing AUC to Fixed Assets - Post Practical Completion Project cost, for capturing costs after practical completion stage.)

5. Final completion - In a majority of small or minor projects, this will be the only point of settlement/ capitalisation to fixed assets, only where none of the previous stages applies to the project.

   If any of stages 1- 4 are applied, this will allow for settlement of any relatively small residual costs incurred on a project after the project has met the criteria of Practical Completion (e.g. final invoices received, as built designs finalised, etc). The outstanding items should then be settled to the appropriate assets.

4. ROLES AND RESPONSIBILITIES

- Project manager authorises the partial capitalisation, practical completion and final capitalisation by completion of the 'project close out form'.
- Divisional Business Support develops divisional procedures and work instructions to manage the process and to meet fixed assets settlement requirement – including clear identification on 'project close out form' of (i) different capitalisation stages: partial, practical completion and final; (ii) update of asset allocation percentage.
- Corporate Finance develops Fixed Assets procedures for capitalisation/ settlement of assets.