31 January 2023

Attachment 5.12: Capitalisation Policy

Ausgrid's 2024-29 Regulatory Proposal

Empowering communities for a resilient, affordable and net-zero future.

Section 1 – Capitalisation

Overview

PPE consists of a network or a non-network asset. All costs relating to a network asset that meet the capitalisation criteria are capitalised and all costs relating to a non-network asset above $1,000 are capitalised.

Details

The following costs are required to be capitalised in PPE:

Direct costs
Direct costs include:

- purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributed to bringing the PPE to the location and condition necessary for it to be capable of operating in the manner intended by management; including the following examples:
  - costs arising directly from the construction or acquisition of the PPE including certain ancillary network service costs (e.g. inspection costs and substation commissioning costs);
  - costs of employee benefits (including direct labour and labour on-costs);
  - costs of materials and contracted services;
  - site preparation costs;
  - initial delivery and handling costs;
  - installation and assembly costs;
  - costs of testing whether the asset is functioning properly; and
  - professional fees (e.g. legal fees related to the purchase or construction of PPE).

Indirect costs
Indirect costs relating to the construction of the particular PPE are to be capitalised on a predetermined cost driver depending on the type of overhead.

Replacement costs
Expenditure incurred to replace a major component of the PPE is to be capitalised when it satisfies the following criteria:

- enhances the economic benefits in excess of its previously assessed standard of performance;
- replaces or restores a component of the PPE that has been treated separately for depreciation purposes and depreciated over its useful economic life;
- relates to a major overhaul that restores the economic benefits of the PPE that has been consumed and has already been reflected in depreciation;
- reduces significantly the ongoing maintenance costs of the PPE; or
- extends the service life of the PPE beyond that expected when it was originally installed.

The carrying value of the replaced PPE (i.e. the old PPE), if any, shall be written off.

Decommissioning and make good
An initial estimate of the cost of decommissioning and/or making good (i.e. dismantling and removing the PPE and restoring the site to its original condition) should be included in the cost of PPE. At the same time, a provision representing the present value of the expected cash outflow for decommissioning costs is also recognised. The initial estimate is regularly re-assessed and updated where necessary, unless any decrease in the liability exceeds the carrying amount of the PPE, in which case, it is recognised in profit or loss immediately.

Capitalised borrowing costs
Borrowing costs should be capitalised if attributable to qualifying assets of Capital Projects, which are greater than $10 million and take more than 12 months to complete. Capital projects include all network and non-network capital projects but exclude:

- purchase of land for strategic purposes when no development activity occurs; or
- capital projects funded by government grant or capital contribution.

Capitalisation threshold - applicable only to non-network assets
Non-network assets with an acquisition cost of more than $1,000 should be capitalised. The $1,000 threshold is determined with reference to each project (e.g. computer system, office furniture or smart meters). Bulk assets should be aggregated together when applying the capitalisation threshold tests (e.g. office chairs bought in bulk at less than $1,000 each should be capitalised as the total project cost will be greater than $1,000).

References

Section 10 – Provisions
AASB 116 *Property Plant and Equipment*
AASB 123 *Borrowing Costs*
AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

Definitions

Borrowing costs
Borrowings costs are interest and other costs that the entity incurs in connection with the borrowing of funds which may include; interest, amortisation of ancillary costs, finance charges, and exchange differences.

Depreciation (amortisation)
Depreciation is the systematic allocation of the cost of an asset over its useful life.

Directly attributable costs
Directly attributable costs are costs that are directly incurred in the preparation of the asset for its intended use. These costs would be avoided if the assets had not been made, such as:

- costs of employee benefits, materials and services arising directly from generating the asset or bringing the asset to its working condition;
- professional fees relating directly from bringing the assets to its working condition; and
- costs of testing whether the asset is functioning properly.

Indirect costs
Indirect costs are costs not directly booked to projects. These are mainly indirect labour costs of a cost centre, or the allocation of items such as vehicle costs attributed to the projects.

Qualifying asset
A qualifying asset is an asset that takes more than 12 months to get ready for its intended use or sale. 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. They are reduced by any progress payments or grants received.

Network assets
Network assets are those physical assets that directly form part of the entity's transmission, sub-transmission or distribution networks (e.g. transmission, sub-transmission and distribution substations, feeders, mains, and network related land and buildings).

Non-network assets
Non-network assets are physical assets not forming part of the entity's electricity distribution network (i.e. corporate land and building, furniture, office machines and photocopiers, plant and tools, radio equipment, telephones, computer equipment (e.g. personal computers, laptops, printers), computer hardware (and can only include the integral software which is required to operate the system), fleet and mobile phones).