



Level 36, Tower Two
Collins Square
727 Collins Street
Melbourne Vic 3008

GPO Box 2291U
Melbourne Vic 3000
Australia

ABN: 51 194 660 183
Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

Simon Appleby
Interim Group Executive Asset Management
ElectraNet Pty Ltd
55/52 East Terrace
Adelaide
SA 5000

11 February 2022

Dear Simon,

ElectraNet Pty Ltd – Accounting Advice

We appreciate the opportunity to have assisted ElectraNet Pty Ltd (**ElectraNet**) in the provision of Accounting Advisory services as set out in our Engagement Letter with you dated 12 November 2021. We set out below our advice for ElectraNet's directors and/or management's consideration.

As of 11 February 2022, we have completed all services as provided in our Engagement Letter. This deliverable is in final form and supersedes all draft versions of our advice.

Please contact me if you have any questions. We thank you and the relevant ElectraNet personnel for all the assistance provided in conducting this engagement and we look forward to continuing to provide service to your organisation.

Yours sincerely

Daina Klunder

Director



Memorandum on Cloud Computing Considerations

Scope

The purpose of this memorandum is to provide guidance in relation to ElectraNet's methodology for the treatment of cloud computing costs, including Software as a Service (**SaaS**) and Infrastructure as a Service (**IaaS**) arrangements, in respect to ElectraNet's forecast technology projects over the next five years. The Scope of the Engagement was agreed as follows:

- **Phase One** – Consider ElectraNet's methodology to assess the technology projects and comment on the appropriateness and completeness of the questions considered when compared to the relevant Australian Accounting Standards and recent guidance by the International Financial Reporting Standards (**IFRS®**) Interpretations Committee (**IFRIC**).
- **Phase Two** – Select a sample of eight technology projects and consider the application of ElectraNet's methodology to the eight technology projects, providing comments on the appropriateness of the accounting determination and capitalisation outcome.

In preparing this letter a management report was provided to ElectraNet including detailed observations and relevant international accounting guidance.

Background

Every five years, ElectraNet submits a Revenue Proposal to the Australian Energy Regulator (**AER**) for formal assessment and approval through the revenue determination process. As part of its submission, ElectraNet is required to forecast its capital and operating expenditure requirements for the five-year period.

In preparing its revenue proposal for 2024-2028, ElectraNet anticipates that a significant portion of its technology program will involve transferring from 'on-premises' to cloud-based computing.

Cloud computing arrangements are those where a company (i.e. ElectraNet) accesses and uses software on an as-needed basis (e.g. over the internet) but do not have the rights to own the underlying software. These arrangements are often referred to as SaaS arrangements. Under these arrangements, the SaaS supplier usually hosts and manages the software, any associated infrastructure and maintains the software product with the user only having the right to access the software.

Historically, IFRS do not provide guidance on how a customer would account for SaaS arrangements, or the costs incurred to implement them. However, in March 2019 and again in April 2021, the IFRIC, released guidance in the form of cloud-based computing or SaaS arrangements agenda decisions. The



agenda decisions considered whether cloud-based computing arrangements led to the customer receiving a software asset or a service over the term of the arrangement and specific guidance in relation to the treatment of customisation and configuration costs.

To quantify those implications, ElectraNet conducted an internal process of applying the relevant accounting standards and agenda decisions to its proposed technology expenditure forecasts. This was done in advance of detailed service contracts being executed because the projects themselves are only developed sufficiently to enable expenditure forecasting. Further detail will be developed as the projects are commenced during the 2024-2028 regulatory period.

Having completed this assessment internally, ElectraNet engaged KPMG to consider their methodology and a sample of their technology expenditure programs. This letter and the accompanying report to management contain the results of that review.

Phase One

As noted above, Phase One of this engagement required consideration of ElectraNet's methodology regarding its appropriateness and completeness of the questions considered when compared to the relevant Australian Accounting Standards and recent guidance released by the IFRIC.

Our high-level findings were that ElectraNet's methodology for classifying its forecast technology expenditure program as capital or operating expenditure are closely aligned with the relevant accounting standards. Some detailed recommendations are provided in the accompanying management report. As noted above, the consideration of ElectraNet's methodology was performed in advance of detailed service contracts being executed because the projects themselves are only developed sufficiently to enable expenditure forecasting.

Phase Two

Phase Two of the engagement required the selection of eight technology projects to further consider the application of ElectraNet's methodology. KPMG considered the eight technology projects as a sample representation of the complete project portfolio (i.e. IAAS, SaaS, recurring and non-recurring).

ElectraNet's classification of the eight projects we reviewed was consistent with our own. Some detailed recommendations are provided in the accompanying management report.



Summary of samples

Ref	Lookup	Project Name	ElectraNet Conclusion	KPMG Conclusion
A4	EC.14103	Data Centre Refresh (2023-2028)	This project has been classified as 60% property plant and equipment and 40% service contract.	Project does appear to contain an item of property plant and equipment and a service contract – consistent with ElectraNet’s assessment.
A7	EC.14112	Core Accounting Systems Improvements	This project has been classified as 100% intangible asset.	Project appears to contain an intangible asset – consistent with ElectraNet’s assessment.
A13	EC.15058	Asset Mobility System	This project has been classified as 100% service contract.	Project is likely a service contract – consistent with ElectraNet’s assessment.
A17	EC.15084	ERP System refresh	This project has been classified as 60% intangible asset and 40% service contract.	Project appears to contain an intangible asset and service contract – consistent with ElectraNet’s assessment.
A19	EC.15086	Enterprise Document Management Phase 2	This project has been classified as 100% intangible asset.	Project appears to contain an intangible asset – consistent with ElectraNet’s assessment.
A20	EC.15096	Enterprise Integration Platform Uplift	This project has been classified as 100% intangible asset.	Project appears to contain an intangible asset – consistent with ElectraNet’s assessment.
A43	EC.15456	Journey Management	This project has been classified as 100% service contract.	Project is likely a service contract – consistent with ElectraNet’s assessment.
A46	EC.15459	Project Portfolio Management Platform Refresh	This project has been classified as 100% service contract.	Project is likely a service contract – consistent with ElectraNet’s assessment.

Disclaimer

Inherent limitations

This deliverable has been prepared at the request of ElectraNet in accordance with the terms of our Engagement Letter dated 12 November 2021 and based on the Scope outlined above. The ultimate responsibility for the accounting treatment of any matter rests with the preparers of the financial statements, including ElectraNet's directors and management.

The services provided in connection with this engagement comprise an advisory engagement, which is not subject to auditing, review or assurance standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed. Any reference to 'review' throughout this deliverable has not been used in the context of a review in accordance with auditing, review or assurance standards issued by the Australian Auditing and Assurance Standards Board.

The advice provided in this deliverable is based upon the facts and circumstances provided to us and the assumptions ElectraNet have advised we should make, as outlined above. ElectraNet is responsible for ensuring:

- the facts, circumstances or assumptions regarding the subject matter do not differ from those provided to us; and
- complete and accurate information has been provided to us, including details of other contracts or arrangements, whether documented or orally agreed, which impact upon the overall substance of the subject matter.

If ElectraNet has not fulfilled these responsibilities, our advice may not be valid. We have not sought to independently verify any information provided to us.

The advice in this deliverable is based on interpretations of accounting standards and other relevant professional pronouncements and legislation current at the date of preparing the advice. Should the accounting standards, other relevant professional pronouncements or legislation change, the advice may not be valid.

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Contacts

Daina Klunder
Director

Justin Turnbull
Associate Director

[KPMG.com.au](https://www.kpmg.com.au)

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