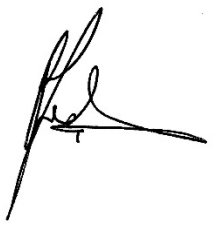
30/06/2019

Accounting Policy

Property, Plant and Equipment

Policy owner:	Finance	
Policy authorised by:	Chief Financial Officer	
	 Chief Financial Officer	Date: 30 June 2019
Direct questions on Policy to:	Manager, Accounting and Financial Reporting	
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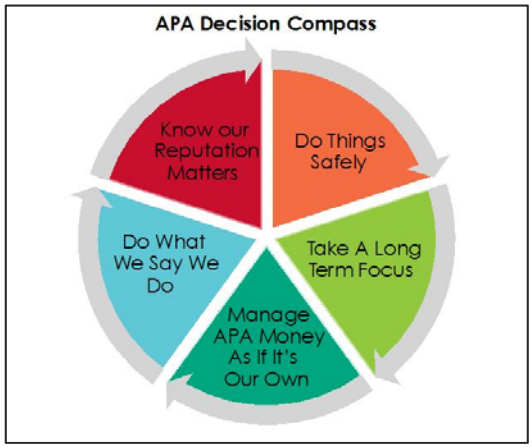
Version control	
Date	**Changes**
25 January 2011	Initial policy
2 September 2014	3 yearly update + customer contributions & leases
September 2017	3 yearly update; Power Station and Solar Farm default useful lives added to Appendix 1.
31 January 2019	Publication date of updated policy
24 June 2019	Policy updated for introduction of leasing standard, and inclusion of guidance for make good obligations.

1 Purpose

The objective of this document is to set out APA's accounting policy for property, plant and equipment. This is a standard setting document providing for consistent accounting treatment of all property, plant and equipment across APA Group and ensures compliance with Australian Accounting Standards.

2 Decision Compass



APA is committed to designing and implementing effective and optimal structures, internal systems and processes to ensure we protect our Values and Code of Conduct and enable delivery of APA's financial, customer, people and community objectives. A strong internal control framework is fundamental to achieving these goals.

Effective application of the accounting policy – property, plant and equipment supports decision making as part of the APA Decision Compass under the segment "Know our Reputation Matters".

3 Scope

This Policy applies to APA Group and all staff of the entities that make up APA Group who process, code, journal or authorise transactions for accounting purposes, or who cause accounting transactions to be initiated.

4 Objectives

The objectives of this Policy are to:

- Set out the requirements for recognising and measuring property, plant and equipment as prescribed by the Australian Accounting Standards Board (AASB).

- Set out APA's accounting policies for the recognition and measurement of property plant and equipment, to ensure that accounting for property plant and equipment is in line with all relevant accounting standards as prescribed by the Australian Accounting Standards Board.

5 Definitions

The definitions of this policy are the same definitions as outlined in AASB 116 Property, Plant and Equipment, AASB Framework for the Preparation and Presentation of Financial Statements, and other applicable standards.

6 Accounting Principles

AASB 116 *Property, Plant and Equipment* (AASB 116) prescribes the accounting treatment of property, plant and equipment (PPE).

In determining the accounting for an item of property, plant and equipment, it must first be determined whether the definition of an asset is met.

6.1 Asset Definition

The AASB Framework for the Preparation and Presentation of Financial Statements (AASB Framework), paragraph 49(a), defines an asset as 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.

6.2 Recognition Criteria

Costs that meet the definition of an asset must also meet the recognition criteria before an asset can be recorded in the balance sheet. Items of property, plant, and equipment must be recognised as assets only when:

- it is probable that the future economic benefits associated with the asset will flow to the entity; and
- the cost of the item can be measured reliably.

(AASB Framework paragraphs 83 and 89, AASB 116 paragraph 7).

The concept of 'probable', as included in the recognition criteria above, is not defined in Australian Accounting Standards. An assessment of the degree of uncertainty attaching to the flow of future economic benefits is made on the basis of the evidence available when the financial statements are prepared (AASB Framework paragraph 85).

The term 'probable' is considered to mean being more likely rather than less likely, i.e. there is a greater than 50% chance that the future economic benefits will occur. Appropriate supporting evidence must be available to support the recognition criteria.

The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity (AASB Framework paragraph 53). Refer to 7.1 for examples of future economic benefits.

An asset is not recognised in the balance sheet when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead, such a transaction results in the recognition of an expense in the income statement (AASB Framework paragraph 90).

Expenditure that is capitalised in the balance sheet must therefore provide future economic benefits beyond the current accounting period or the following 12 months.

Refer to section 6.5 for costs that are eligible for capitalisation.

6.3 Subsequent Costs

6.3.1 Cost of Day-to-Day Serving of Property, Plant and Equipment

Under the recognition criteria detailed above, the costs of day-to-day servicing of property, plant and equipment are not permitted to be capitalised. These costs are recognised in profit or loss as incurred.

Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of parts.

The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

[AASB 116.12]

6.3.2 Replacement of Items of Property, Plant and Equipment

Parts of some items of property, plant and equipment may require replacement at regular intervals.

Examples provided in AASB 116 of such instances are '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.' [AASB 116.13]

Replacements of components are required to be recognised in the carrying amount of an item of property, plant and equipment when incurred when the recognition criteria, as detailed in section 6.2, are satisfied.

On recognition of replacement components as part of an item of property, plant and equipment, where the replacement cost is significant in relation to the total cost of the item and the life of the replaced component differs to the life of the item of property plant and equipment, then the replaced component shall be depreciated separately (refer to section 6.7).

The carrying amount of the component that is replaced is de-recognised in accordance with the de-recognition requirements (refer to section 6.9).

6.3.3 Regular Major Inspections

A condition of continuing to operate an item of property, plant and equipment 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 incurred when the recognition criteria detailed in section 6.2, is satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised at that time. [AASB 116.14]

De-recognition 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, with an adjustment to reflect subsequent depreciation.

6.3.4 Spare Parts

Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this policy when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. [AASB 116.8]

Generally, major spare parts are capitalised as plant & equipment where these are :

- Specialised in nature and can only be used in connection with an item of property, plant & equipment;
- Have a material cost (whether to an individual asset, or to a group of assets on an aggregate basis [AASB 116.9]) ; and
- The economic benefits are expected to be used over more than one reporting period.

For example, capital spares (whilst generally considered to have long useful lives) are acquired where failure of the underlying part could result in a lengthy shutdown of equipment due to lead times for obtaining a replacement part.

6.4 Measurement and Recognition

In general, an asset is measured at the cost of acquiring, constructing or developing the asset.

Initial recognition of items of property, plant and equipment is at cost, which is the amount of cash or cash equivalents paid or fair value of other consideration given or any other amount attributed by the specific requirements of an Australian Accounting Standard.

6.5 Elements of Costs

It is important to note that the principles contained in paragraph 6.5 do not apply to a business combination, please refer to paragraph 6.6 which deals exclusively with costs incurred in a business combination.

The elements of cost for an item of property, plant and equipment are:

- purchase price including non-refundable purchase taxes less any trade discounts and rebates;
- direct construction costs;

- costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- an initial estimate of dismantling and removing the item and restoration costs. [AASB 116.16]

'Directly attributable' costs are costs that, if not incurred, would result in the asset not being able to be used and therefore not being able to provide future economic benefits to the entity.

Examples of 'directly attributable' costs which include:

- cost of employee benefits, all forms of consideration given by an entity in exchange of services rendered by employees;
- cost of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing that the asset is functioning properly; and
- professional fees (including contractor fees). [AASB 116.17]

Examples of costs that are not costs of an item of property, plant and equipment:

- costs of opening a new facility;
- costs of introducing a new product or service (including costs of advertising and promotional activities);
- training costs specifically required for general and operational purposes;
- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs. [AASB 116.19]

Recognition of costs in the carrying amount of an item of property, plant and equipment cease when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. [AASB 116.20]

6.6 Business Combinations

AASB 3 *Business Combinations* ("AASB 3") includes the following definitions:

- Business combination - A transaction or other event in which an acquirer obtains control of one or more businesses.
- Business - An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

[AASB 3 Appendix A]

In accordance with AASB 3 paragraph 53, any acquisition-related costs incurred to effect a business combination are expensed in the periods in which the costs are incurred and when the services are received. The only exception is directly attributable costs associated with issuing debt or equity securities, which shall be recognised in accordance with AASB 132 Financial Instruments: Presentation and AASB 9 Financial Instruments.

Acquisition related costs include stamp duty, advisory fees (e.g. success fees, due diligence, valuation and other professional or consulting costs), and general administrative costs including the cost of maintaining an internal acquisitions department.

If an item of property, plant and equipment is therefore acquired as part of a business combination, any acquisition related costs (e.g. professional fees and stamp duty) are required to be expensed to the profit or loss statement.

6.7 Depreciation

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. [AASB 116.6]

An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part (refer section 7.1.7).

The residual value and the useful life shall be reviewed at least at the end of each annual reporting period. Any change in the residual value and/or the useful life of an asset is accounted for prospectively as a change in estimates (refer to section 7.7).

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.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is de-recognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

6.8 Depreciation Method

The depreciation method used must reflect the pattern of expected benefit consumption and be reviewed at least annually.

Depreciation methods (such as the straight-line method, diminishing balance method and units of production method) can be used to allocate the depreciable amount of the asset on a systematic basis over it useful life.

A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. [AASB 116.62(a)]

6.9 De-recognition

The carrying amount of an item of property, plant and equipment shall be de-recognised:

- on disposal; or
- when no future economic benefits are expected from its use.

The gain or loss from the de-recognition of an item of property, plant and equipment shall be included in the profit or loss. Gains are not permitted to be recognised as revenue.

If an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it de-recognises the carrying amount of the replaced part regardless of whether the replaced part had been previously separately recognised and depreciated. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed, with an adjustment to reflect subsequent depreciation.

6.10 Customer Contributions

An entity may receive cash (or other assets) from customers for the purpose of constructing or connecting the customer to a network, providing the customer with ongoing access to a supply of goods & services (e.g. gas transportation services), or both.

If the asset definition (refer to 6.1) is met, the transferred / constructed assets shall be recognised as property, plant and equipment under the recognition criteria (refer to 6.2).

Contributions received from third parties for the construction of items of property, plant and equipment are not permitted to be offset against the cost of the asset. Items of property, plant and equipment are required to be recorded at cost (cost is defined in the definition section of AASB 116 as the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of acquisition / construction).

Any funds received from a customer as a result of a contract with that customer need to be assessed under the requirements of AASB 15 *Revenue from Contacts with Customers*. The core principle of this standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Generally, tariffs charged to a customer (explicitly or implicitly) include a component which contributes to the capital cost of the transmission system or network. In cases where a customer contributes to the cost of a new system facility or connection, a separate capital charge may not be levied to the extent that the customer has contributed to the cost of the facility or connection. In such cases, consideration needs to be given to whether the performance obligation under the contract is the provision of the connection over the life of the contract and as such there is an ongoing contractual service obligation in the Gas Transportation or other contractual agreement. This would require the customer contribution to be deferred as 'Unearned Revenue' and progressively released as revenue to the Profit or Loss over the period of the related contractual service obligation.

For further guidance on accounting for customer contributions please contact Group Finance and consult the Accounting Policy – Revenue for further guidance.

Where a customer contribution is received in relation to capital recoverable works, refer to section 7.3.1.

6.11 Government Grants

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* prescribes the accounting for, and disclosure of, government grants and other forms of government assistance.

A government grant is not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. [AASB 120.7]

Government grants related to assets are required to be presented in the statement of financial position either as deferred revenue or as a reduction to the carrying value of the resulting asset. [AASB 120.24]

Where recognised as deferred revenue, government grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised. [AASB 120.7]

6.12 Leases

AASB 16 *Leases* applies where an entity enters into an arrangement comprising a transaction, or series of related transactions, that conveys a right to control the use of and obtain substantially all of the economic benefit of an identified asset for a period of time in exchange for consideration (generally a series of payments).

Lessee

AASB 16 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement, which means assessing if:

- There is an identified asset either explicitly specified in a contract, or identifiable by being implicitly specified at the time that the asset is made available for use by the customer;
- The supplier does not have both the practical and economic ability to substitute the asset throughout the period of use;
- APA has the rights to substantially all the economic benefit of that asset during the contract; and
- APA Right to control and direct the use of the identified asset.

Where all of the above are true the contract is deemed to contain a lease.

Lessor

The classification of leases by lessors is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

A lease shall be classified as a finance lease if substantially all the risks and rewards incidental to ownership of the underlying asset are transferred to the lessee. A lease is classified as an operating lease if substantially all the risks and rewards incidental to ownership of the underlying asset remain with the lessor.

[AASB 16 – Leases]

7 Accounting Policy Requirements

The accounting policy requirements detailed below relate to property, plant and equipment capitalised in the balance sheet. Any costs incurred for operation and maintenance activities are expensed to profit or loss when incurred. This accounting policy ensures compliance with Australian Accounting Standards.

7.1 Initial Recognition

Assets acquired/constructed shall be recognised as an asset when the recognition criteria are met (i.e. it is probable that APA will receive future economic benefits and the costs of the item can be measured reliably).

The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to APA. Examples of 'economic benefits' derived from property, plant and equipment include:

- revenue contracts associated with the capital expenditure made are entered into;
- work which substantially reduces operating costs, such as maintenance costs;
- work that improves the quality, quantity or both, of the output of the asset;
- replacement components or units which extend the service life of the existing asset beyond its expected service life on construction; and
- replacement/further work which increases the efficiency, capacity or functionality of the existing asset.

Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had it not been acquired. [AASB 116.11]

7.1.1 Components

Each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item is depreciated separately. Where a component provides a different pattern of benefits to APA, a different useful life and depreciation rate will be used for the component. For example, an acquired pipeline might consist of the pipeline, compressors and regulators. It is generally expected that the pipeline will have a longer useful life over which to earn economic benefits than the compressors and regulators. In this example, depreciation should be provided separately for each component over its expected useful life.

Further, where an asset has major components that are expected to be replaced as part of future major overhauls, these assets should be separately identified from the larger asset and depreciated over the shorter useful life.

Items that are not individually significant are combined with other like assets that have the same useful lives.

7.2 Subsequent Costs

Costs incurred subsequent to an asset being first put into use or available for use will be permitted to be capitalised into the carrying value of the asset only when the recognition criteria are met (i.e. it is probable that future economic benefits associated with the expenditure will flow to APA and costs can be measured reliably).

Subsequent costs that merely maintain the economic benefits originally expected are considered repairs and maintenance and recognised as expenses as incurred. Refer to 7.1 for examples of 'economic benefits'.

7.2.1 Costs of Day to Day Servicing

Cost of day to day servicing items of property, plant and equipment will not be permitted to be capitalised and will be required to be expensed, when incurred, to the profit or loss. The nature of these costs result in maintaining the asset's potential to deliver the economic benefits expected when initially recognised and therefore do not qualify to be recognised as an asset.

7.2.2 Replacements of Major Components of Items of Property, Plant and Equipment

Replacements of components are required to be recognised in the carrying amount of an item of property, plant and equipment only when the recognition criteria are met (i.e. it is probable that future economic benefits associated with the expenditure will flow to APA and the costs can be measured reliably).

On recognition of replacement components as part of an item of property, plant and equipment, where the cost of the replaced component is significant in relation to the total cost of the item and the life of the replaced component differs to the life of the item of property plant and equipment, then the replaced component shall be depreciated separately (refer to section 7.1.1).

The carrying amount of the component that is replaced is required to be derecognised regardless of whether the replaced component has been previously separately recognised and depreciated. If it is not practicable to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed, with an adjustment to reflect subsequent depreciation.

7.2.3 Regular Major Inspections

As a condition of continuing to operate and manage its infrastructure assets, APA is required to perform regular major inspections. The nature of the inspection will determine whether such costs are required to be capitalised or expensed.

7.2.3.1 Capitalisation – Major Inspections

During the course of operations APA conducts pigging activities. Depending on the nature of the pigging activity such costs may be capitalised as they provide future economic benefits.

Please note that NOT all pigging activities will be permitted to be capitalised, for example the cost of standalone cleaning pig runs will be required to be expensed. Cleaning pigs are however rarely performed on a standalone basis and are generally conducted as part of an intelligent pigging programme in order to maximise the data obtained from an intelligent pigging run. When

cleaning pig runs are performed as part of an intelligent pigging programme, the cost of the cleaning pig is required to be capitalised together with the costs of the intelligent pigging programme.

Costs that are required to be capitalised are those costs that are directly attributable in performing such inspections. Once capitalised, costs are to be depreciated, on a straight line basis, over the time period to when the next inspection is expected to be performed.

Any remaining carrying amount of the cost of the previous inspections must be derecognised and expensed to the profit and loss statement.

For further guidance on the types of activities that will be permitted to be capitalised refer to *Accounting Policy – Pigging Activities*.

7.2.3.2 Expensing - Inspections

Inspections conducted where future economic benefits are not expected to be achieved beyond the period the costs were incurred, must be expensed.

For example, where an inspection has been performed to determine the extent of maintenance works required (i.e. to repair a defect) such costs must be expensed as the economic life of the asset is not expected to be extended beyond its current expected life.

7.3 Costs to be Capitalised

The cost of an item of property, plant and equipment shall include, if applicable:

- purchase price including import duties and non-refundable taxes after deducting trade discounts and rebates;
- costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- an initial estimate of dismantling and removing the item and restoration costs.

'Directly attributable' costs are costs that, if not incurred, would result in the asset not being able to be used in the manner intended by management and therefore not being able to provide future economic benefits to the entity. As APA Group regularly constructs assets, an element of apparently 'fixed' costs

may also be directly attributable to bringing an asset to working condition. In such circumstances, consideration should be given to which costs would have been avoided if none of those assets had been constructed.

Directly attributable costs may include, where applicable:

- cost of employee benefits (Refer to Accounting Policy – Capitalisation of Labour Costs);
- cost of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing that the asset is functioning properly (e.g. commissioning costs);
- borrowing costs capitalised; and
- professional fees (including contractor fees).

[AASB 116.17]

For further guidance on costs which must be capitalised, please refer to the following Accounting Policies for the Capitalisation of 'Labour Costs', 'Borrowing Costs' and 'Project Costs'.

It is important to note that the principles contained in paragraph 7.3 do not apply to a business combination, please refer to paragraph 7.15 which deals exclusively with costs incurred in a business combination.

7.3.1 Capital Recoverable Works

Capital recoverable works consist of capital works, undertaken at the request of individuals or organisations, which are not for the purpose of establishing a new connection to the network.

The works typically involve the relocation of assets (e.g. distribution networks) to accommodate roadwork re-alignment, and require a contribution from the third party requesting the work. As a consequence of the required works, new mains are laid with the pre-existing mains being abandoned.

Customer contributions received for the performance of capital recoverable works shall be recorded as revenue in the profit and loss statement in line with the requirements of AASB 15 *Revenue from Contracts with Customers* and APA

Accounting Policy – Revenue from Contracts with Customers (under development).

The costs incurred in relocating assets as a part of capital recoverable works are required to be capitalised if it is probable that future economic benefits are expected to be achieved and the costs can be reliably measured (refer to section 7.1).

Where capital recoverable works result in the abandonment of assets, the carrying amount of these assets are required to be derecognised regardless whether the items have previously been separately recognised and depreciated. If it is not practicable to determine the carrying amount of items (i.e. in situations where assets have been capitalised with other assets of a similar nature), an estimate shall be made of the carrying amount of these assets. Estimates will be based on the costs, age and location of the asset (refer to section 7.2.2 and 7.9).

7.3.2 Government Grants

In certain circumstances APA may receive government assistance in the form of a grant to construct or assist with the construction of an asset.

Whilst there are two acceptable alternative methods of accounting for government grants related to assets under AASB 120, it is APA policy for grants related to assets to be presented in the statement of financial position as deferred revenue.

Government grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

The treatment of each grant should be assessed on a case by case basis. For further guidance on accounting for Government Grants please contact Group Finance.

7.3.3 Assets costing less than $1,000

Assets costing less than $1,000 each are required to be expensed to natural account 586660, with the description 'EXPENSED CAPITAL < $1,000'.

An exception to the principle of expensing capital items costing less than $1,000 is where the assets form an integral part of a larger transmission or distribution network. For example a gas distribution business should not

expense residential gas meters, which cost approximately $300 each, as these assets form part of the distribution network and as such are required to be capitalised.

Examples of assets costing less than $1,000 which will be permitted to be expensed are mobile phones, computer equipment, kitchen appliances, furniture and sets of tools, etc.

The cost of a set of assets is only permitted to be coded to the natural accounts detailed above where the total cost of the set of assets is less than $1,000. Items will be regarded as a set if they are dependent on each other, marketed as a set or are designed and intended to be used together, e.g. furniture for the board room is considered to be part of a set.

The cost of an asset must be reduced by the input tax credit in determining whether the cost of the asset is less than $1,000.

If, immediately prior to the end of each financial year, the aggregate value of assets costing less than $1,000 each total a material amount then these costs are required to be capitalised as part of property, plant and equipment before the close of the financial year. If the aggregate value of assets costing less than $1,000 each total an immaterial amount, they will be permitted to be expensed in the year incurred.

For tax purposes, the total costs of assets costing less than $1,000 each are required to be capitalised to the low value pool, this is regardless of whether amounts are immaterial or not.

By way of guidance as to materiality on a group basis for the aggregate value of assets costing less than $1,000, aggregate annual expenditure greater than 0.5% of Profit Before Tax is considered to be material.

7.3.4 Assets costing more than $1,000

Assets acquired during the course of business costing more than $1,000 (e.g. motor vehicles, office furniture and computer equipment (hardware and software) are required to be capitalised as property, plant and equipment as soon as the asset is available for use.

For internally constructed assets, whilst assets are being constructed, all costs which are directly attributable to the construction of the asset are capitalised as part of the balance sheet account described as capital works in progress (or similar).

When the construction of the asset is completed and the asset is available for use, (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) the construction costs of the asset shall be transferred from the capital works in progress account to the appropriate property, plant and equipment asset class.

For further information regarding the processes involved in the capitalisation of property, plant and equipment, refer to the *Procedure for the Capitalisation of Property, Plant & Equipment* or direct queries to the Fixed Asset Accountant.

7.3.5 Liquidated damages

For discussion and guidance on the treatment of liquidated damages, refer to Accounting Policy – Capitalisation of Project Costs.

7.4 Measurement after Recognition

APA Group has chosen the 'cost model' for the subsequent measurement of each class of property, plant and equipment.

As a result, APA Group is required to carry each item of property, plant and equipment at cost less any accumulated depreciation and any accumulated impairment losses.

7.5 Depreciation

The depreciable amount of property, plant and equipment is allocated to the profit or loss on a systematic basis over its useful life and reflects the pattern in which the future economic benefits are expected to be consumed.

Significant parts of an item of property, plant and equipment that have a different useful life from the main asset are required to be treated as separate assets (refer section 7.1.1). For example, a pipeline system may include the following asset components - compressor stations, cathodic protection, instrumentation, facilities, etc.

The depreciation charge for each period shall be recognised in the profit and loss statement.

7.6 Depreciation Amount and Depreciation Period

Depreciation of an asset shall begin from the date the asset is available for use and it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

For assets which have become idle or have been retired from active use, consideration should be given as to whether any remaining book value of the asset should be written down to nil.

7.7 Depreciation Methods and Rates

Depreciation shall be provided on property, plant and equipment, including freehold buildings but excluding land and easements (with indefinite useful lives).

Depreciation shall be calculated by either the straight-line method or throughput method.

If an item of property, plant and equipment is expected to generate future economic benefits in a constant pattern over the life of the asset, then the straight-line method shall be used to calculate the asset's depreciation.

If an item of property, plant and equipment is expected to generate future economic benefits in a variable pattern over the life of the asset (e.g. where throughput volumes and revenues 'ramp up' over time as end user markets develop and mature - as is the case for a greenfield pipeline) then it may be more appropriate to use the throughput method to calculate the asset's depreciation.

The estimated useful lives and depreciation methods shall be reviewed at the end of each reporting period, with the effect of any changes recognised on a prospective basis. Revisions of the estimated useful lives and depreciation methods of individual items of property, plant and equipment are also required to factor in commercial and environmental factors applicable to the asset.

Refer to Appendix 1 for the details of the suggested default useful lives and depreciation rates for items of property, plant and equipment. An evaluation of commercial, environmental or other factors should always be conducted to determine whether alternate useful lives are more relevant. For example, shorter useful lives may be appropriate due to the life of a related mine, contract term, available energy reserves, market forecasts, etc.

7.7.1 Straight-line Depreciation Method

The straight-line method is based on depreciating the cost of an asset less its residual value over its useful life.

This method results in an equal amount of depreciation expense for each year in the asset's useful life. Under the straight-line method, annual depreciation expense is calculated by applying the following formula:

$$\frac{\text{Cost less estimated residual value}}{\text{Estimated useful life (years)}}$$

7.7.2 Throughput Depreciation Method

The throughput depreciation method is based on depreciating the cost of assets, such as pipelines, in a periodic pattern which is consistent with the usage of the asset. This methodology requires an initial assumption of the total pipeline throughput (GJ) over its useful life, with each year's depreciation expense being derived as follows:

$$\text{Written Down Value (\$) at the start of the year} \times \frac{\text{Current year pipeline throughput (GJ)}}{\text{Unexpired throughput (GJ) at the start of the year}}$$

By the end of the pipeline's useful life, actual throughput is required to equal the expected throughput in order to ensure that the asset is fully depreciated.

7.8 Impairment

Items of property, plant and equipment shall be reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets other than Goodwill that have previously reported impairment are reviewed for possible reversal of the impairment at each reporting period.

If the asset does not generate independent cash inflows and its value-in-use cannot be estimated to be close to its fair value the asset is tested for impairment as part of the cash-generating unit (CGU) to which it belongs.

Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less costs of disposal or value-in-use.

7.9 De-recognition/Sale of Assets

The carrying amount of an item property, plant and equipment shall be derecognised:

- on disposal; or
- when no future economic benefits are expected from its use (e.g. the asset has been stolen, damaged, abandoned, or is obsolete).

Any gain or loss arising from the de-recognition/sale of an item of property, plant and equipment shall be included in the profit and loss statement when the item is de-recognised/disposed.

If the cost of a replacement for a component of an asset is recognised in the carrying amount of an item of property, plant and equipment, then the carrying amount of the replaced component must be derecognised, regardless of whether the replaced component had previously been separately recognised and depreciated. If the carrying amount of the replaced item cannot be separately identified, then APA must either estimate or use the cost of the replacement component as an indication of the cost of the replaced component at the time it was acquired or constructed, with an adjustment to reflect subsequent depreciation.

In situations where items of property, plant and equipment are stolen, damaged, abandoned, sold or become obsolete, the carrying amount of these assets are required to be derecognised regardless of whether the items have previously been separately recognised and depreciated. If it is not practicable to determine the carrying amount of items (i.e. in situations where assets have been capitalised with other assets of a similar nature), an estimate shall be made of the carrying amount of these assets. Estimates will be based on the costs, age and location of the asset.

The write off/de-recognition of all items of property, plant and equipment must be approved by Managers with the appropriate Delegation of Authority (DOA) Level as per the *Delegations of Authority Policy* and *Table of Delegated Limits of Authority*.

7.10 Easements

Easements with indefinite useful lives shall not be depreciated. An easement is taken to have an indefinite life where there is anticipated to be a continuing need for and source of the product/service provided by the underlying asset. For example, whilst a pipeline (as an asset with physical form) will deteriorate over time due to age and environmental factors, a pipeline which supplies major populated areas would be expected to be continually renewed (e.g. via replacement, renewal and/or looping) such that the associated easements will continue to be used indefinitely beyond the life of the current pipeline – as long as there is an ongoing source of supply and customer demand.

Easements with finite lives are required to be depreciated over the useful life. An easement is taken to have a finite life by virtue of the easement being granted for a defined term, or where there is a finite need for or source of the service/product provided by the underlying asset. For example the useful life of an easement, which relates to a pipeline which delivers gas to a remote mine with an expected mine life of 25 years, shall be deemed to be identical to the useful life of the mine (i.e. 25 years).

7.11 Leases

A detailed examination of the requirements of AASB 16 *Leases* is beyond the scope of this Policy.

APA as lessee

Where a lease contract is identified, APA will recognise a Right-Of-Use (ROU) asset and corresponding lease liability at the present value of the minimum lease payments (discounted using an appropriate borrowing rate).

Lease payments are apportioned between:

- finance charge (interest), which is recognised in the income statement; and
- principal, which is recognised as reduction to the lease liability.

Depreciation recognised in income statement whereby ROU assets are depreciated over the lease term.

APA as lessor

Finance Lease: Recognise a finance lease receivable and derecognise an item of property, plant and equipment or item of capital works in progress at an amount equal to the net investment in the lease.

Lease receipts are apportioned between:

- finance income (interest), which is recognised in the income statement; and
- principal, which is recognised as a reduction to the lease receivable.

Operating Lease: Property, plant and equipment assets recognised in balance sheet according to the nature of the asset.

Costs, including depreciation, are recognised as an expense.

Lease receipts are recognised as income on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the user's benefits.

7.12 Linepack and cushion gas

Gas pipelines and storage facilities require a certain minimum level of gas to be maintained in order to operate efficiently. Such gas is referred to as linepack or cushion gas. Where APA purchases such gas, it is recorded in the following natural accounts:

- 190015 – Gas Stock in Pipeline NC Commissioning (for newly commissioned pipelines)
- 190026 – Gas Stock in Storage NC Commissioning (for newly commissioned storage facilities)

As the costs of such gas are expected to be recoverable when the pipeline or storage facility is decommissioned, no systematic write down is made over the life of the pipeline or storage facility. Where the costs are however higher than the residual value, the difference between the cost and the net residual value is recognised in profit and loss over the life of the remaining life of pipeline or storage facility.

Linepack and cushion gas are classified as non-current other assets (and not PP&E) for financial reporting purposes.

7.13 The provision to make good

Because of certain contracts and licences APA has obligations to dismantle, remove and restore items of "property, plant and equipment (PP&E)" (often referred to as 'make good'). Examples of this include where an APA entity has leased a premise it may be required to restore the premises to its original condition at the conclusion of the lease, or APA may be required to remove a pipeline at the end of the pipeline licence.

Accounting standards require these obligations to be recorded as liabilities in certain circumstances, as set out below.

7.13.1 Initial recognition

The cost of an item of PP&E includes the initial estimate of the costs of dismantling, removing the item, restoring the site on which it is located and any other obligations for which an entity incurs costs 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 [AASB116.16(c)].

Examples of make good costs:

***Dismantling**:* the cost of taking apart a piece of machinery to allow for its removal from the site.

***Removing**:* the cost of removing the dismantled equipment from site and transporting to a disposal facility.

***Restoration**:* the cost of returning the site to its original condition.

The resulting provision for make good is only recognised when the criteria in AASB 137 paragraph 14 is satisfied, that is

a. an entity has a present obligation (legal or constructive) as a result of a past event;

b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c. a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

Lease agreements, memorandums of understanding and any other arrangements made, in relation to tenancies, need to be examined in order to determine whether the above criteria are satisfied.

7.13.2 Initial measurement

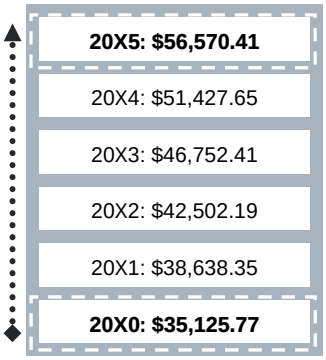
In accordance with AASB 137.36, the amount of the provision shall be the best estimate of expenditure required to settle the obligation, as at the end of the reporting period. This estimate will take into account the expected inflation adjusted cost increases. The provision will be discounted to reflect the present value of such expenditures where the time value of money is material (AASB 137.45).

APA's method of estimating the expenditure required to settle the obligation is to obtain a reasonable estimate of the cost to make good the asset in the present day (i.e. through quotes or based on past experience in similar situations). This cost is inflated by the forecast Consumer Price Index (CPI) to obtain the expenditure required when the requirement to make good is expected to occur, and subsequently discounted back to present value using a pre-tax rate.

7.13.3 Subsequent accounting

Excluding changes in the underlying assumptions, the discount on the initial recognition of the provision will unwind to interest expense over the life of the provision. The make good asset will at the same time depreciate. The impact of these two adjustments is that the full cost of the make good requirement will have been recorded in the statement of profit or loss on a systematic basis over the life of the lease, and the provision will have built up to the required amount when the make good obligation is settled.

Practical guidance



For example the costs to make good an office have been assessed at $50,000 in today's money, this is due to be paid in five years' time (year 20X5). Applying CPI of 2.5% and a discount rate of 10% gives the future value of $56,570.41, which is the equivalent of $35,125.77 in today's terms (year 20X0)

The unwinding of the discount increases the provision each year to reflect the passage of time. The value of the $56,570.41 after one year would now be $38,638.35. Therefore, the provision increases by $3,512.58 (the difference between year 20X1's present value and year 20X0's value).

7.13.4 Changes in the measurement of an existing provision to make good

The provision for make good, like all provisions is required to be reviewed at each reporting date, the provision is required to be adjusted to reflect APA's current best estimate as to the timing and amount of the required make good. If it is *no longer probable* that the entity will be required to settle the obligation, the provision is reversed.

Changes in the measurement of a make good provision may result from changes in the estimated *timing* or *amount* required to settle the obligation; or the *discount rate*.

Changes in the measurement of the existing provisions are accounted for in accordance with Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

An increase/(decrease) in the provision is added to/(deducted from) the cost of the asset.

Except for the following:

- Where the amount of the reduction exceeds the carrying amount of the asset any excess is recognised immediately in the statement of profit or loss.
- Where the related asset is at the end of its useful life, all subsequent changes to the provision are recognised in the statement of profit or loss as they occur.

7.13.5 Derecognising provisions

As the premises is made good the provision is released to offset costs in the statement of profit or loss. If the estimates were overstated and the full provision was not derecognised when the entity made good, a provision reversal would be recognised in the statement of profit or loss. Conversely if the provision was insufficient additional make good costs will be recognised in the statement of profit or loss as they occur.

Derecognition of the related asset is carried out in accordance with AASB 116's derecognition requirements (paragraphs 67 – 72).

7.14 Remaining Life Reviews

The engineering design life of a pipeline is often 30 or 40 years, which is considerably shorter than the economic or useful life of the pipeline due to modern integrity techniques and planned maintenance schedules that extend the useful life of the pipeline when it is appropriately maintained.

Industry standards require a periodic remaining life review to confirm that a pipeline is fit for purpose (currently no later than every 10 years). These reviews are mandatory and enforced through pipeline license reviews.

As noted above, the useful life of a pipeline is the period over which management expects to obtain future economic benefits from the asset. The useful life of a pipeline is therefore generally longer than the initial design life and the period of the remaining life review.

A remaining life review does not change the economic benefits that are expected from a particular pipeline, or the term over which those benefits are earned. These reviews are in substance akin to a condition assessment for compliance purposes and therefore do not satisfy the capitalisation criteria set out above. The costs of such reviews should therefore be expensed through profit and loss and are not eligible for capitalisation.

7.15 Useful life Reviews

The estimated useful lives are reviewed annually. If the expectations differ from previous estimates, the changes are accounted for prospectively as a change in estimate.

7.16 Business Combinations

If an item of property, plant and equipment is acquired as part of a business combination, any acquisition related costs (e.g. professional fees and stamp duty) are required to be expensed to the profit and loss statement.

7.17 Procedures

All capital costs incurred are to be coded to the respective capital project in Oracle. Once the asset is setup and the Generate Accounting process is completed, the balance from the capital work in progress account is transferred to the fixed asset accounts in the general ledger. The detailed process for the capitalisation of property, plant and equipment (including

capital work in process) is outlined in the *Procedure for Capitalisation and Maintenance of Property, Plant and Equipment*.

8 Roles and responsibilities

Position	Responsibility
Chief Financial Officer	Authorisation of policy.
Manager Financial Reporting	Maintaining policy and answering questions related to the operation of the policy.
All staff of the entities that make up APA Group who process, code, journal or authorise transactions for accounting purposes, or who cause accounting transactions to be initiated.	To understand and adhere to this policy.

9 Non-compliance with this Policy

Incidents of wilful non-compliance will be subject to investigation.

10 Links / interaction with other policies/agreements

Delegations of Authority Policy

Table of Delegated Limits of Authority

Accounting Policy – Capitalisation of Borrowing Costs

Accounting Policy – Capitalisation of Labour Costs

Accounting Policy – Pigging Activities

Accounting Policy – Capitalisation of Project Costs

Accounting Policy – Revenue *(under development)*

Accounting Policy – Leases *(under development)*

Procedure for the Capitalisation and Maintenance of Property, Plant & Equipment.

11 References

AASB Framework for the Preparation and Presentation of Financial Statements (Issue date: June 2014)

AASB 116 – Property, Plant and Equipment (Issue date: October 2015)

AASB 3 – Business Combinations (Issue date: August 2015)

AASB 15 – Revenue (Issue date: September 2018)

AASB 16 – Leases (Issue date: February 2016)

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance (Issue date: August 2015)

A Appendix 1: Accounting Rates and Estimated Useful Life

Listed below are estimates of the technical lives of items of property, plant and equipment.

The useful lives and rates detailed below are suggested default useful lives and rates. An evaluation of commercial, environmental and other factors should always be conducted to determine whether alternate useful lives are more relevant.

For example: A pipeline, which delivers gas to a remote mine with a mine life of 40 years, shall also be deemed to have a useful life of 40 years.

Should you require further assistance with the determination of useful lives of assets for accounting purposes, please contact Group Finance.

Class Description	Business Segment	Useful life (Year)	Rate (% Straight-line)
Land and Buildings			
Land	All segments	Indefinite life	Indefinite life
Buildings	All segments	40	2.5%
Roads, carparks and hardstands	All segments	30	3.3%
Leasehold improvements	All segments	Term of lease	Term of lease
Storage shed	All segments	40	2.50%
Easements	All segments	Note 1	Note 1
Fencing	All segments	20	5.00%
Pipeline System			
Pipelines (post 1 July 1980)	Transmission	80	1.25%
Pipelines (pre 1 July 1980)	Transmission	60	1.67%
Pigging	Transmission	Per pigging program frequency	Per pigging program frequency
Regulator stations, consisting of:			
- Mainline pipes and valves	Transmission	80	1.25%
- Regulators	Transmission	30	3.33%
- Building structures	Transmission	40	2.50%
- Station piping	Transmission	20	5.00%
- Control hut equipment (electrical & electronic)	Transmission	10	10.00%
- Station Instrumentation (electrical & electronic)	Transmission	10	10.00%
- Station Instrumentation (non-electronic)	Transmission	15	6.67%

Class Description	Business Segment	Useful life (Year)	Rate (% Straight-line)
Heaters	Transmission	20	5.00%
RTU - RTU and control system	Transmission	10	10.00%
Bristol - flow computer	Transmission	10	10.00%
Cathodic protection system	Transmission	20	5.00%
FPLT - Fixed Plant			
Compressor Station, consisting of:			
- Turbine and compressors	Transmission	20	5.00%
- Mainline pipes and valves	Transmission	40	2.50%
- Regulators	Transmission	30	3.33%
- Building structures	Transmission	40	2.50%
- Heaters	Transmission	20	5.00%
- Station piping	Transmission	20	5.00%
- Control hut equipment (electrical & electronic)	Transmission	10	10.00%
- Station Instrumentation (electrical & electronic)	Transmission	10	10.00%
- Station Instrumentation (non electronic)	Transmission	15	6.67%
LNG Plant, consisting of:			
- Storage tank	Storage	50	2.00%
- Mainline pipes and valves	Storage	40	2.50%
- Regulators	Storage	30	3.33%
- Building structures	Storage	40	2.50%
- Heaters	Storage	20	5.00%
- Station piping	Storage	20	5.00%
- Control hut equipment (electrical & electronic)	Storage	10	10.00%
- Station Instrumentation (electrical & electronic)	Storage	10	10.00%
- Station Instrumentation (non electronic)	Storage	15	6.67%
Odourant plant	Transmission	20	5.00%
Storage facility, consisting of:			
- Mainline pipes and valves	Storage	40	2.50%
- Regulators	Storage	30	3.33%
- Building structures	Storage	40	2.50%
- Heaters	Storage	20	5.00%
- Station piping	Storage	20	5.00%
- Control hut equipment (electrical & electronic)	Storage	10	10.00%
- Station instrumentation (electrical & electronic)	Storage	10	10.00%
- Station instrumentation (non electronic)	Storage	15	6.67%
Water, Fuel and Oil storage tank (non-portable)	All segments	30	3.33%

Class Description	Business Segment	Useful life (Year)	Rate (% Straight-line)
Customer Services			
Commercial servs 32	Distribution	50	2.00%
Domestic servs 20 PE	Distribution	50	2.00%
Ind servs 100 ST	Distribution	50	2.00%
Indust servs 25 ST	Distribution	50	2.00%
Indust servs 50 ST	Distribution	50	2.00%
Mains			
Mains PE 500KPA	Distribution	60	1.67%
Mains PVC 100 KPA	Distribution	60	1.67%
Mains STEEL 200 KPA	Distribution	80	1.25%
Mains STEEL 1200 KPA	Distribution	80	1.25%
Mains STEEL 4200 KPA	Distribution	80	1.25%
Mains STEEL 7000 KPA	Distribution	80	1.25%
Meters			
Metering station, consisting of:			
- Meters	Transmission	20	5.00%
- RTUs	Transmission	10	10.00%
- Skids (concrete)	Transmission	80	1.25%
- Site pipework	Transmission	80	1.25%
- Other facilities (e.g. heaters)	Transmission	20	5.00%
- Communication support equipment	Transmission	10	10.00%
- Mainline pipes and valves	Transmission	30	3.33%
Meters M1 (DOM/COM)	Distribution	15	6.67%
Meters M2 (COM/IND)	Distribution	15	6.67%
Meters M3 (IND) STL	Distribution	15	6.67%
Meters M4 (IND) STL	Distribution	15	6.67%
Meters M5 (IND) STL	Distribution	15	6.67%
Equipment			
Misc tools & equipment	All segments	10	10.00%
Radio equipment	All segments	10	10.00%
Mobile plant	All segments	10	10.00%
Gas chromatograph	All segments	10	10.00%
Gas detector	All segments	10	10.00%
Gas analyser	All segments	10	10.00%

Class Description	Business Segment	Useful life (Year)	Rate (% Straight-line)
Stopple equipment	All segments	40	2.50%
Pipeline locator	All segments	5	20.00%
Vehicle satellites (VSAT)	All segments	10	10.00%
Uninterruptible power supply incl battery	All segments	10	10.00%
Earth leakage circuit breaker	All segments	20	5.00%
Mobile satellites	All segments	10	10.00%
Satellite phones	All segments	5	20.00%
Battery charger	All segments	10	10.00%
Vehicles			
Trailers	All segments	10	10.00%
Forklifts	All segments	10	10.00%
Tractors	All segments	10	10.00%
Vehicles - Heavy	All segments	10	10.00%
Vehicles - Other	All segments	4	25.00%
Computer			
Computer laptops	All segments	3	33.33%
Computer desktops	All segments	3	33.33%
Software development	All segments	4	25.00%
Furniture, Fitting & Fixtures			
Office equipment	All segments	10	10.00%
Furniture	All segments	10	10.00%
Fixtures and fittings	All segments	10	10.00%
Refrigerator	All segments	10	10.00%
Air-conditioning unit	All segments	10	10.00%
Workstations (including desks and partitions)	All segments	10	10.00%
Carpets	All segments	10	10.00%
Mobile phones	All segments	3	33.33%
Security & protection systems	All segments	10	10.00%
Television	All segments	10	10.00%
Wind Farm Assets			
Blades	Power Gen	25	4.00%
Nacelles	Power Gen	25	4.00%
Towers	Power Gen	25	4.00%

Class Description	Business Segment	Useful life (Year)	Rate (% Straight-line)
Power Station Assets			
Gas Turbine Generator (GTG)	Power Gen	25	4.00%
Heat Recovery Steam Generator (HRSG)	Power Gen	25	4.00%
Steam Turbines Generator (STG)	Power Gen	25	4.00%
Reciprocating engine generator	Power Gen	15	6.67%
Cooling water systems (main and auxiliary)	Power Gen	25	4.00%
Condensers	Power Gen	25	4.00%
Deaerator	Power Gen	25	4.00%
Feedwater systems	Power Gen	25	4.00%
Water supply/treatment	Power Gen	25	4.00%
Compressed air systems	Power Gen	25	4.00%
Export switch yard – consisting of:	Power Gen	25	4.00%
- Switchgear	Power Gen	25	4.00%
- GT generators	Power Gen	25	4.00%
- STG generators	Power Gen	25	4.00%
- connecting cables	Power Gen	25	4.00%
- auxiliary transformers	Power Gen	25	4.00%
- starting motors and larger VSD motor	Power Gen	25	4.00%
- HIGS units (highly integrated generator switchgear)	Power Gen	25	4.00%
- LV, DC and UPS systems	Power Gen	25	4.00%
Lightning protection	Power Gen	25	4.00%
Fuel oil components	Power Gen	25	4.00%
Instrumentation and controls	Power Gen	10	10.00%
Solar Farm Assets			
Photovoltaic panels and mounting frames	Power Gen	25	4.00%
Medium Voltage Power Station (MVPS) units	Power Gen	25	4.00%
Inverters (to be separately identified from MVPS unit)	Power Gen	12.5	8.00%
Cabling (DC and AC)	Power Gen	25	4.00%
MV switchgear	Power Gen	25	4.00%
Transformers and HV switchgear	Power Gen	25	4.00%

Note (1) For guidance on the useful lives of Easements, please refer to Section 5.10 of the *Accounting Policy on Property, Plant and Equipment*.

B Appendix 2: Make Good Provision – Accounting Entries

B.1 Initial accounting entries

The following journal illustrates the initial recognition of an asset and the associated provision for make good:

DR Appropriate PP&E or ROU Contra Account (e.g. 170031 - PPE C LEASEHOLD IMPROVEMENTS – CONTRA) Or if via projects DR 177100 - (CONTROL) CONSTRUCTION IN PROGRESS	X	
CR 280053 - PROV - ABANDONMENT / MAKE GOOD (non current)		X

Note: If not via a project, advise the Fixed Asset Accountant of the intended journal so that they are aware they will need to add to the make good asset to the Fixed Asset Register (FAR). APA Fixed Asset Account will create the associated asset within Oracle Fixed Asset module and clear the contra account, the asset will then be recorded in the appropriate PP&E control account.

APA records the make good asset separately from the item of PP&E.

B.2 Subsequent accounting

B.2.1 Unwinding of the discount

The following journal illustrates the recognition of the interest expense and increase in eth provision as a result of the unwinding of the discount

DR 701300 - UNWIND DISCOUNT - ABANDONMENT/MAKE GOOD OBLIGATION	X	
CR 280053 - PROV - ABANDONMENT / MAKE GOOD (non current) Or if during the last year CR 230053 - PROV - ABANDONMENT / MAKE GOOD (current)		X

B.2.1.1 Depreciating the make good asset

The make good asset is depreciate over the life from inception to the end of the lease or the date that the make good is expected to be required. This entry is performed by the fixed assets subledger system.

DR 698010 - DEPRECIATION	X	
CR Appropriate PP&E r ROU Accumulated Depreciation Account (e.g. 171030 - PPE D LEASEHOLD IMPROVEMENTS		X

Note: The depreciate amount will change if the provision is updated, refer below.

B.2.1.2 Transferring the provision to current

At the point in time that the make good requirements are due to be met within twelve months, the make good provision balance needs to be reclassed to current.

DR 280053 - PROV - ABANDONMENT / MAKE GOOD (non current)	X	
CR 230053 - PROV - ABANDONMENT / MAKE GOOD (current)		X

Note: unwinding of the discount will need to be made to the current balance from this point onwards.

B.2.2 Changes in the measurement of an existing provision to make good

An increase/(decrease) in the provision is added to/(deducted from) the cost of the asset, any reduction in excess of the carrying amount of the asset is taken immediately to the statement of profit or loss.

For example, where APA has revised its initial estimate of make good provision downwards by $75,000. The related asset cost $600,000 on initial recognition and as it is nearing its useful life, has accumulated depreciation of $550,000, resulting in a carrying value of $50,000.

As the amount of the deduction ($75,000) exceeds the carrying amount of the asset ($50,000), APA would deducts (Cr) $50,000 from the asset, with the excess $25,000 recognised as a credit to the statement of profit or loss.

Dr	Provision for make good	$75,000	
	Cr PP&E		$50,000
	Cr Make good expense		$25,000

Where the related asset is at the end of its useful life, all subsequent changes to the provision are recognised in statement of profit or loss as they occur.

Consider **Appendix 3 Illustrative example 3** – at the end of the lease term APA extends its lease and hence does not make good the property at this point in time. Rather than derecognising the provision, APA is required to revalue the provision to take into consideration this delay.

As the leasehold asset is fully depreciated, there would be no further depreciation over this new period.

Similar to the initial recognition of the make good provision, *an increase in the provision* leads to an increase in the cost of the related asset:

DR PP&E*	X	
Cr. 230053/280053 - PROV - ABANDONMENT / MAKE GOOD		X

A decrease in the provision leads to a reduction in the cost of the related asset:

DR 230053/280053 - PROV - ABANDONMENT / MAKE GOOD	X	
Cr. PP&E*		X

* PP&E account will depend upon the classification of the asset being made good, i.e. 170031 - PPE C LEASEHOLD IMPROVEMENTS - CONTRA for office fit outs.

Note: Advise the Fixed Asset Accountant of the intended journal so that they are aware they will need to adjust the make good asset in the Fixed Asset Register (FAR).

B.2.3 Derecognising provisions

As the premises is made good the provision is released to offset costs in the statement of profit or loss.

DR 230053 - PROV - ABANDONMENT / MAKE GOOD*	X	
Cr. 680025 - COST OF REMOVAL		X

*230053 is the current account, the make good provision will need to be transferred to current 1 year before the make good is expected to occur.