FIXED ASSETS PLAN

CONTROLLED DOCUMENT

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PowerWater

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1 Purpose

This plan provides the framework for all activities relating to Fixed Assets.

2 Scope

This plan applies to all of Power and Water Corporation and Indigenous Essential Services Pty Ltd (the Corporation.)

3 Plan

3.1 Capital or Operating Expenditure

3.1.1 Objective

The objective of this section is to provide guidance on differentiating between capital and operating expenditure. This plan focuses on maintenance type expenditure, where the capital or operating demarcation can be complex.

3.1.2 Assets and Equipment

'*Asset*' is the term used to describe the physical equipment items and their *components* from the maintenance and engineering perspective. Equipment items are recorded in the 'asset register', which is the asset module of the Asset Management System in Maximo (AMS). The purpose of recording equipment items in the register is to:

- ensure the items are maintained within the parameters of the maintenance policies;
- report costing information against equipment items, to facilitate the repair or replace decision; and
- allow failure analysis to be conducted at the equipment item level.

'*Fixed Asset*' is an item that meets the asset definition from the financial perspective (ie 'resource controlled by the Corporation as a result of past events and from which future economic benefits are expected to flow to the Corporation'). Fixed Assets are recorded in the Financial Fixed Asset Register (FFAR).

For the purposes of this document, the term 'Asset' is used to indicate a 'Fixed Asset' item.

3.1.3 Guidelines to Determine if Capital or Operating Expenditure

The important part of this plan is to distinguish between *capital* and *operating expenditure*. Determining the type of expenditure can have a material effect on the profit and loss of the Corporation and future revenues, as revenue will be determined in part by the Australian Energy Regulator based on the Corporation's Fixed Asset base.

An asset should be recognised when it:

- has a cost that can be reliably measured;
- could be expected to be used over more than one financial year; and
- will be in the control of the Corporation and will deliver *future economic benefits* to the Corporation.

Expenditure is capital when the above criteria and one of the following is satisfied:

- a new asset is purchased or constructed;
- service capacity of an existing asset has been notably increased;
- the long term useful life of an existing asset has been permanently extended more than 12 months beyond original expectations;
- a component of the asset, recognised as a component asset in the FFAR, has been replaced;
- an asset, or its components, have *major periodic maintenance* (cyclical with a frequency of more than 12 months and incurred under a maintenance plan); or
- the ongoing maintenance expenditure of the asset has been reduced.

Alternatively, it will be maintenance (operating) expenditure, if it involves:

- making good any fault in a revenue producing asset, thus restoring it to its operational condition or service capacity;
- the notion of servicing the asset, thus ensuring that the asset meets its operational performance, reliability expectations or service capacity (excluding major periodic maintenance);
- rearranging or moving assets; or
- aesthetic enhancement or beautification.

When decision making, the direct nature of the expenditure is key. There must be evidence or reasoning to connect the expenditure to a specific asset. Specific examples to assist in the decision making process for allocating costs as either capital and operating expenditure are contained in 3.1.6 Capitalisation vs Operating Expenditure Decision Flow Chart.

3.1.4 Accounting Standard Requirements

Accounting Standards

AASB 116 Property, Plant and Equipment

Property, plant and equipment are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than 12 months.

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

This Standard does not prescribe the unit of measure for recognition, that is, what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dyes, and to apply the criteria to the aggregate value.

AASB 138 Intangible Assets

An intangible asset is:

a) identifiable;
b) the Corporation has control over the resource; and
c) there is existence of a future economic benefit.

Common examples of intangible assets are; computer software, patents, copyrights, licenses, customer or supplier relationships, market shares and marketing rights.

3.1.5 Operating Expenditure

Under the recognition principle in AASB 116.7, 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-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

Further, AASB 116.19 states examples of costs that are not costs of an item of property, plant and equipment are:

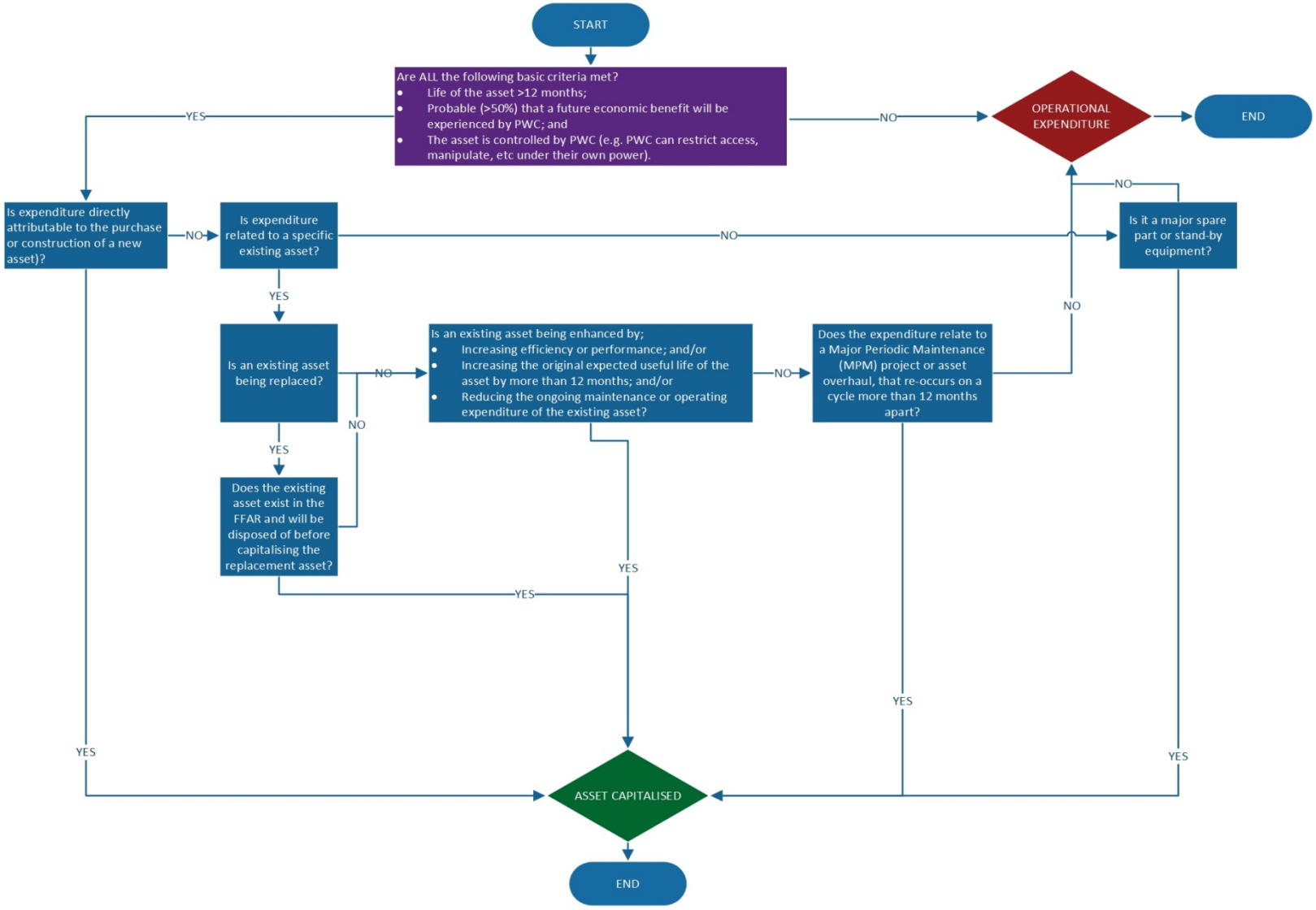
- costs of opening a new facility;
- costs of introducing a new product or service (including costs of advertising and promotional activities);
- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs (see Note below).

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed (AASB 116.8).

Note: Expenditure incurred prior to the construction of an asset/s such as research, option studies and investigative expenditure cannot be capitalised unless it can be directly linked to the final asset/s to be capitalised. See examples in 3.1.7. If classification between operating and capital expenditure for such expenditure is unclear, please contact the Fixed Assets team for clarification.

Corporate overhead costs are not considered to be an item of property, plant and equipment unless the costs form part of the cost base of an asset. The Corporation capitalises a portion of Corporate overhead costs that are relevant and directly attributable or necessarily incurred in the construction of fixed assets as per section 3.6 Capitalisation of Internal Costs.

3.1.6 Capitalisation versus Operating Expenditure Decision Flow Chart



3.1.7 Examples of Capital and Operating Expenditure

Example 1a

A water tank is capitalised as one asset with a 30 year useful life. Subsequently, the roof needs replacing after ten years. This work did not extend the life or the capacity of the overall tank and therefore will be considered to be repairs and maintenance (operating expenditure), regardless of the costly value of the expenditure.

Example 1b

A water tank is capitalised as two assets; the tank with a life of 25 years, and the tank roof with a life of 10 years. If the roof had been designated as a separate asset with a shorter life than the overall tank, then when replacement occurred the asset, tank roof, would be replaced and therefore capitalised. The key is making sure the useful life of the component part is correct such that when the replacement occurs, there is not a write-off of any un-depreciated cost.

Example 2

Every five years, the sewerage ponds require desludging to keep them operating. This is known as major periodic maintenance (or cyclical maintenance) work (refer 3.2 Capitalisation). If desludging is designated a separate component (ie a separate asset) when the original asset is built and its life set to the correct length of the benefit of the desludging program (ie five years), then the desludging costs can be capitalised when they occur.

Example 3

A water pump requires a full service annually. As the benefit of this process is only 12 months, this is not considered to be capital. The cost will be expensed at the time it is incurred.

Example 4a

Research is to be undertaken over two years costing $200,000 assessing the water supplies in an area and identifying the most efficient way to store and supply water to the local town. The final research paper is to include a recommendation of the most appropriate assets to be constructed to meet the local water needs. This cost is operational expenditure as there is no direct link to the final asset/s that will be constructed.

Example 4b

The research outlined in 4a example identified that a bore should be sunk in the area. The cost of design, consultant costs to advise on depth and sighting, etc for the bore can be capitalised as these costs are directly attributable to the asset to be constructed.

For further examples and explanations of capitalisation decisions, refer to 3.2 Capitalisation.

3.2 Capitalisation

3.2.1 Objectives

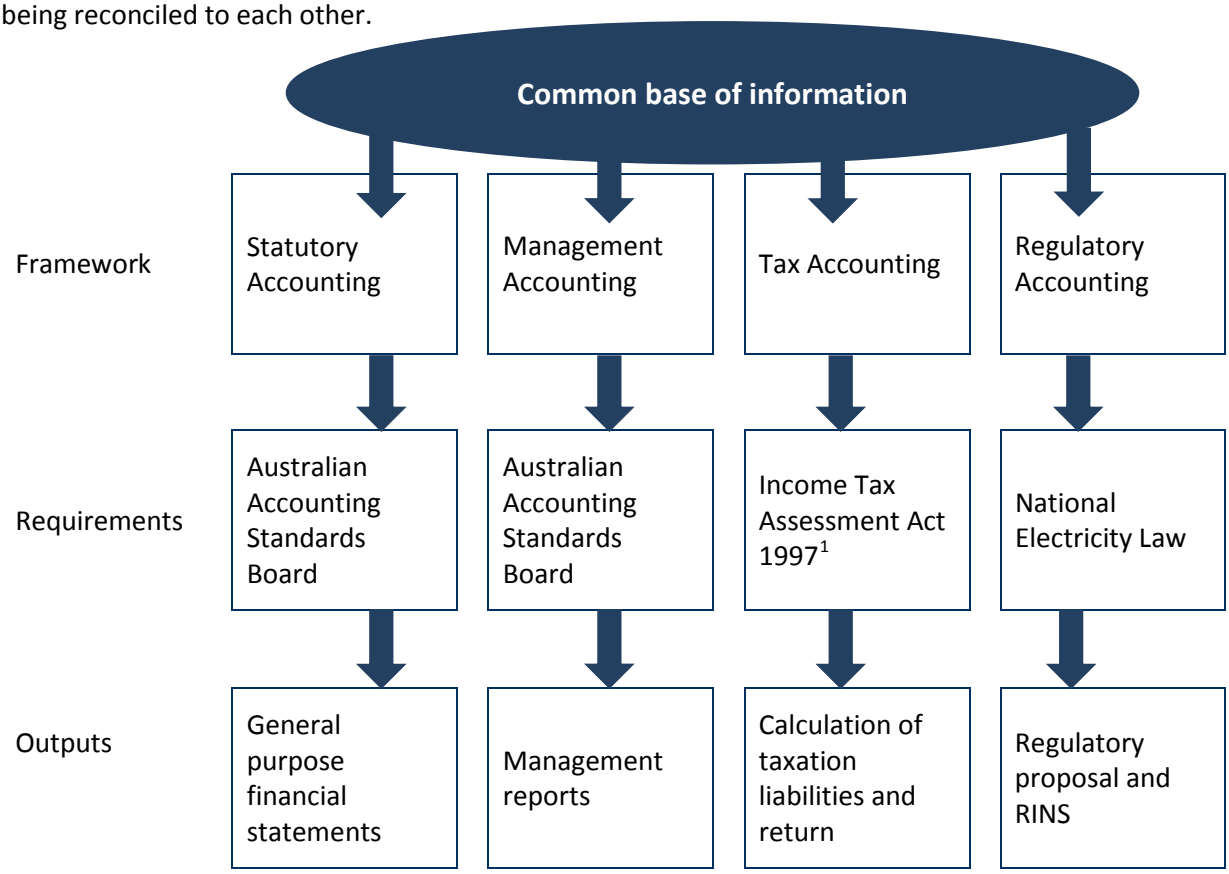
The objectives of this section are to:

- describe the accounting treatment for property, plant and equipment required by the Australian Accounting Standards;
- ensure that expenditure is correctly capitalised or expensed as repairs and maintenance in line with the Australian Accounting Standards;
- ensure the maintenance of property, plant and equipment is accounted for in a logical and cost-effective manner that enables users to have reliable information in order to make decisions; and
- achieve a consistent approach to the capitalisation of assets across Power and Water.

Power and Water must ensure capitalisation process is carried out accurately and reliably in order to meet the reporting requirements of their regulatory frameworks. For each of the regulatory

frameworks, periodic reporting is required. A summary of the reporting requirements for these frameworks is below.

The different frameworks generally share common elements and their outputs should be capable of being reconciled to each other.



Accounting Requirements

An asset register is to be maintained following the Accounting Standard requirements known as the Financial Fixed Asset Register (FFAR).

This plan is prepared in line with these standards; any exceptions to the plan to meet other requirements are highlighted throughout the plan. Other requirements include:

Indigenous Essential Services

Specific exemptions in Accounting Standards are available for not-for-profit entities. This plan outlines where the not-for-profit exemptions applied to IES differ from the PWC accounting requirements. An IES Asset Book is maintained separately to the PWC FFAR.

Tax Requirements

Asset requirements for tax purposes are set out in Division 40 of the Income Tax Assessment Act 1997. This plan outlines where the tax requirements differ from accounting requirements. A

PWC Tax FFAR is maintained separately to the PWC Accounting FFAR. As a not-for-profit entity, IES is not subject to tax and therefore no IES Tax FFAR is needed.

For situations that require professional judgement contact the Fixed Assets team within Finance.

3.2.2 Capitalisation Decision

After expenditure is classified as capital (refer 3.1 Capital or Operating Expenditure), it is subject to the recognition criteria to determine if it will be recognised as 'property, plant and equipment' by Power and Water. If the recognition criterion is not met, the costs will be expensed in the current period.

Property, plant and equipment are tangible items that are:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- expected to be used during more than one period (AASB 116 para 6).

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably (AASB 116 para 7).

3.2.3 New Assets

Maximo vs Non-Maximo Assets

Maximo is the Corporation's asset management system used by the business units. All assets that have ongoing management and maintenance requirements are recorded in Maximo to ensure the ongoing service and maintenance activities are carried out when needed. Non-Maximo assets are assets that have not been entered into the asset management system (Maximo). These assets, such as office furniture or appliances, are not registered in Maximo due to not having any maintenance or

management requirements after purchase. Both Maximo and Non-Maximo assets are in the Oracle Financial Fixed Asset Register (FFAR).

Purchased

Power and Water purchases new assets directly from third party suppliers. This may include vehicles, furniture and computer hardware and equipment.

All of the following tests must be satisfied in order for expenditure to be capitalised as a new asset:

- the life of the asset must be one year or greater; and
- it must be probable (> 50% chance) that Power and Water will derive value from the asset; and
- the asset is controlled by Power and Water.

If expenditure is for a non-Maximo asset less than $20,000, it will be pooled under the Low Value Asset Pool (refer 3.3 Low Value Asset Pool) rather than capitalised separately.

Identical assets purchased within the same period may be recorded in the FFAR as a single asset number with the number of assets reflected in the quantity (refer 3.3.4 High volume/low value Maximo Pooling of Assets as one annual asset).

Asset purchases that fail the above tests are expensed to the profit and loss statement.

Expenditure that is capitalised as a new asset will be recorded in the FFAR. Recording assets in the FFAR triggers the recognition as property, plant and equipment in the financial reports and commencement of depreciation.

Constructed for Own Use

Power and Water constructs, for example, its own assets using employees and buying components, contractors or a combination of both. Constructed assets may be network assets, water or sewer pipelines or the development of IT assets. Constructed assets are subject to the same capitalisation tests as purchased assets.

There are, however, additional specific tests for:

- componentised assets (refer 3.4 Components); and
- information technology and software assets (3.2.6 Information Technology and Software Assets).

3.2.4 Existing Assets

Power and Water incurs expenditure on assets already recognised in the FFAR. Expenditure on existing assets may be incurred in order to:

- operate the asset;
- keep the asset at its optimum level of functionality through regular servicing;
- restore asset functionality which has been impaired through deterioration or damage;
- carry out a major periodic maintenance (refer 3.2.4(c) Major Periodic Maintenance);
- replace part of an asset (refer 3.4 Components); or
- improve the asset beyond its original specifications.

Expenditure carried out as a major periodic maintenance and improving an asset beyond its original specifications is capitalised, as it increases the value or 'economic benefits' embodied in the asset. Expenditure incurred in operating, maintaining or restoring an asset is not capital in nature (3.1 Capital or Operating Expenditure).

A Asset Replacement

Power and Water may either replace an entire asset or a component part. It is important to note that components are treated as assets in their own right. Further information specific to components is contained in 3.4 Components.

The asset or component being replaced must first be retired from the FFAR before the replacement costs can be capitalised.

B Asset Enhancement

Power and Water sometimes incurs expenditure on assets already listed within the FFAR to increase the current service capacity**.** There are two aspects of service capacity that may be increased:

- An increase in efficiency or performance e.g. converting an old undersized overhead conductor to a new larger capacity overhead or underground feeder; or
- An increase in the useful life e.g. replacing the impeller within a bore-field pump with a new one made of higher grade material, which will extend the life of the entire pump by five years.

Enhancement may also result in reduction of the ongoing maintenance or operating expenditure for an asset. A common example is the replacement of a mechanical circuit breaker within a substation with a newer SF6 (gas) circuit breaker. This results in less frequent circuit breaker trips and a reduction in the frequency of required inspections.

Enhancement costs can be capitalised if the asset enhancement or modification:

- increases efficiency or performance; and/or
- increases the useful life of the asset; and/or
- reduces the asset's ongoing maintenance or operating expenditure.

C Major Periodic Maintenance (MPM)

From time to time, Power and Water's major assets will require major periodic maintenance. This is an important part of the maintenance of the large power networks or water services equipment. For example, large water pipes connecting to remote areas are periodically flushed with icy water to remove any build-up of sediment within the pipes. This process, known as 'ice pigging' is considered to be major periodic maintenance. The cost associated with major inspections, overhauls and maintenance can be capitalised (AASB 116 para 14).

All of the following tests must be satisfied in order for MPM expenditure to be capitalised as a new component of its parent asset:

- the inspection must cyclical; and
- the interval between inspections (timing for overhauls to comply with manufacturers' recommendations) must be greater than 12 months.

When the new MPM component is recorded in the FFAR, it must be recognised as a component of the parent asset, which is the asset the MPM is to be performed on.

In addition to the MPM component being capitalised, the existing MPM component must be disposed of and the remaining written-down value expensed to the profit and loss statement.

MPM capitalisation requires some additional plan guidance, due to the specific requirements of AASB 116:

Any maintenance or capital works identified during the MPM are not included in the cost of the MPM component. That is, if maintenance activities are identified, these will be treated as operating expenditure, and if capital works are identified, these will be capitalised separately.

When certain major assets are acquired, the cost of a major overhaul or inspection may be embedded within the cost of the asset. An MPM component will need to be recorded on acquisition. The carrying amount of the MPM component will need to be estimated based on current market price, and raised as a separate MPM component of the asset. The value of the MPM component is deducted from the carrying amount of the parent asset. The useful life of the MPM component is equivalent to the frequency of the MPM activity (AASB 116 para 14).

For example, a new sewage pond is created with a value of $500,000 and a useful life of 80 years, but it will require desludging (major periodic maintenance) every five years. At the date of acquisition, the cost of desludging the existing ponds of the same size is $100,000. Therefore, the cost of the MPM component for accounting purposes is $100,000 which will be depreciated over five years, until the first major periodic maintenance. The remaining carrying amount is $400,000 which will be depreciated over 80 years (assuming no further components).

D Expenditure Never Capitalised

There is expenditure on existing assets that Power and Water must never capitalise, as it fails the recognition principle regarding increasing future economic benefits as per AASB 116.

Asset expenditure related to any of the following activities must not be capitalised, and must be expensed to the profit and loss statement:

- rearranging or moving assets; or
- aesthetic enhancement or beautification; or
- day to day servicing of assets; or
- costs of introducing a new product or service (including costs of advertising or promotional activities);
- costs of conducting business in a new location or with a new class of customer;
- costs of relocating or reorganising part or all of Power and Water's operations;
- costs incurred while an asset is capable of being operated in the manner intended by management but has not yet been commissioned, or is operating at less than full capacity;
- abnormal amounts of wasted material, labour or other resources; and
- administration and all other general overhead costs, such as staff training, entertainment and accommodation costs not directly attributable to the purchase or construction of an asset. Further information can be found at 3.6 Capitalisation of Internal Costs.

E Aesthetic improvements

Aesthetic improvements to existing assets or 'beautification' projects, which do not result in some measurable efficiency or quality improvement, are not to be treated as an effective increase in service quality.

F Environmental enhancements

Expenses incurred in complying with statutory requirements do not automatically qualify as capital expenditure. Environmental enhancements necessary to comply with Environmental Protection Authority (EPA) and other requisites should be reviewed to confirm whether such expenditure meets any of the tests described. If the expenditure does not qualify it must be expensed in the year in which it was incurred.

3.2.5 Capital Spares

Power and Water's spare parts and servicing equipment are usually carried as inventory and expensed in profit and loss as consumed. However, Power and Water may purchase major spare parts and stand-by equipment that qualify as property, plant and equipment where they are expected to be used during more than one period (AASB 116 para 8). These are referred to as capital spares.

The plan prescribes the following capitalisation tests for capital spares, in addition to the standard capitalisation tests. For capital spares to be capitalised as property, plant and equipment, it must satisfy one of the following definitions:

- **rotable** - a spare part reused after repair, usually part of a cyclical replacement program;
- **insurance spare** - a spare part kept on hand to ensure the uninterrupted operation of equipment in the event of an unexpected breakdown or equipment failure. They are not expected to be used in the normal course of business.

The useful life of capital spares must not be in excess of the useful life of the asset they are a spare part for (AASB 116 para 8). Capital spares that do not meet the above criteria will be treated as inventory. All capital spares will be recognised in the FFAR.

3.2.6 Information Technology and Software Assets

The development or acquisition of IT and software assets is required to be capitalised and shown as 'intangible assets' for financial reporting purposes. The capitalisation decision for IT and software development expenditure is based upon the stage of development the expenditure was incurred in.

Power and Water's development or acquisition of an IT asset will fall into three distinct stages:

- preliminary project;
- application development; then
- post-implementation/operation.

Expenditure during the 'preliminary project' phase is primarily operating (AASB 138.54), 'application development' is primarily capital (AASB 138.54) and 'post-implementation' is primarily operating.

Capitalisation of costs should begin when both of the following occur:

- preliminary project stage is completed; and

- management with the relevant authority, implicitly or explicitly authorises and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended (i.e. approval of business case).

Power and Water's IT projects will generally follow the various stages and related processes of software development, as follows:

Preliminary Project Stage	Application Development Stage	Post-Implementation/ Operation Stage
• Conceptual formulation of alternatives • Evaluation of alternatives • Determination of performance and system requirements • Determination of existence of needed technology • Final selection of alternatives	• Design of chosen path, including software configuration and software interfaces. • Coding • Installation to hardware • Testing, including parallel processing phase.	• Training • Application maintenance

The procedures related to capitalisation will list the specific costs of IT and software asset development that may be capitalised or expensed to the profit and loss statement.

3.2.7 Costs to be Capitalised

The cost of an asset includes all costs that are 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 (AASB 116 para 16). That is, all costs incurred to bring the asset to its intended in-service state.

As with Information Technology and Software Assets, expenditure during the 'preliminary project' phase is primarily operating and capitalisation of costs should begin when both of the following occur:

- the preliminary project stage is completed, and
- management with the relevant authority, implicitly or explicitly authorises and commits to funding the capital project and it is probable that the project will be completed and the asset will be used to perform the function intended (ie approval of business case).

The cost of an item of property, plant and equipment (purchased or constructed) includes:

- the purchase price;
- directly attributable materials costs;
- directly attributable labour costs;
- import duties and non-refundable purchase taxes, after deducting any trade discounts or rebates;
- site preparation costs;
- initial delivery and handling costs (including freight);
- installation and assembly costs;
- costs of testing whether the asset is functioning correctly (net of any proceeds that may be generated by the testing process);
- any applicable borrowing costs (AASB 123) calculated by Financial Accounting;

- an initial estimate of the costs of dismantling, removing and restoring a site, to the extent that the estimated costs are recognised as a provision in accordance with accounting plan (AASB 116 para 16 and AASB 137);
- directly attributable legal fees incurred in relation to the acquisition of a tangible or intangible asset; and
- internal overheads directly attributable to or necessarily incurred for bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. (refer 3.2.8 Internal Overheads).

Examples of expenses that are **not** included in the cost of property, plant and equipment include, but are not limited to:

- costs of introducing a new product or service (including costs of advertising or promotional activities);
- costs of conducting business in a new location or with a new class of customer;
- costs of relocating or reorganising part or all of Power and Water's operations;
- costs incurred while an asset is capable of being operated in the manner intended by management but has not yet been commissioned, or is operating at less than full capacity;
- abnormal amounts of wasted material, labour or other resources; and
- administration and all other general overhead costs, such as staff training, entertainment and accommodation costs not directly attributable to the purchase or construction of an asset. Further information can be found at 3.6 Capitalisation of Internal Costs.

3.2.8 Internal Overheads

PWC's core business is to operate and maintain water & sewerage and power networks. In connection with the core business PWC incurs a range of overhead costs required to effectively build and maintain these networks. A portion of select overhead costs are incurred primarily to support capital activities and to bring the assets to their intended use. An appropriate amount of overhead costs in connection with common or shared functions that support capital projects is therefore capitalised. Refer to section 3.6 Capitalisation of Internal Costs for more detail.

3.2.9 Ready for Use

An asset can only be recognised in the FFAR when the asset is:

- first put to use; or
- held ready for use.

Capital expenditure incurred before an asset is recognised on the FFAR is held in the Work in Progress account. Capital Work In Progress associated with an asset is deemed as being ready to be capitalised when the recognition criteria above are meet. Work in Progress is transferred to property, plant and equipment (FFAR) and depreciation commences when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

3.2.10 Asset Class

When the asset is recorded in the FFAR, the asset class is selected. This will determine which Property, Plant and Equipment GL account the carrying value of the asset will be recognised in. This in turn determines how it will be displayed in the financial statements.

The asset classes are:

Land

Freehold land - Land purchased with freehold title. Freehold land has an unlimited life and therefore is not subject to depreciation.

Crown land set aside for Power and Water - The land remains the property of the Crown. However, Power and Water has been granted the use of the land until the Crown decides otherwise. We have the option if the Crown grants it to purchase this land at market value. Crown land is not capitalised in the asset registers unless Power and Water purchases the land and it becomes freehold land.

Easements - Power and Water purchases the right to use or access land without obtaining ownership. This right is capitalised by Power and Water as an intangible asset.

Infrastructure

Infrastructure comprises assets and organisational structures and facilities required for the Corporation to produce the gas, electricity networks, water and sewerage services.

Operating Equipment

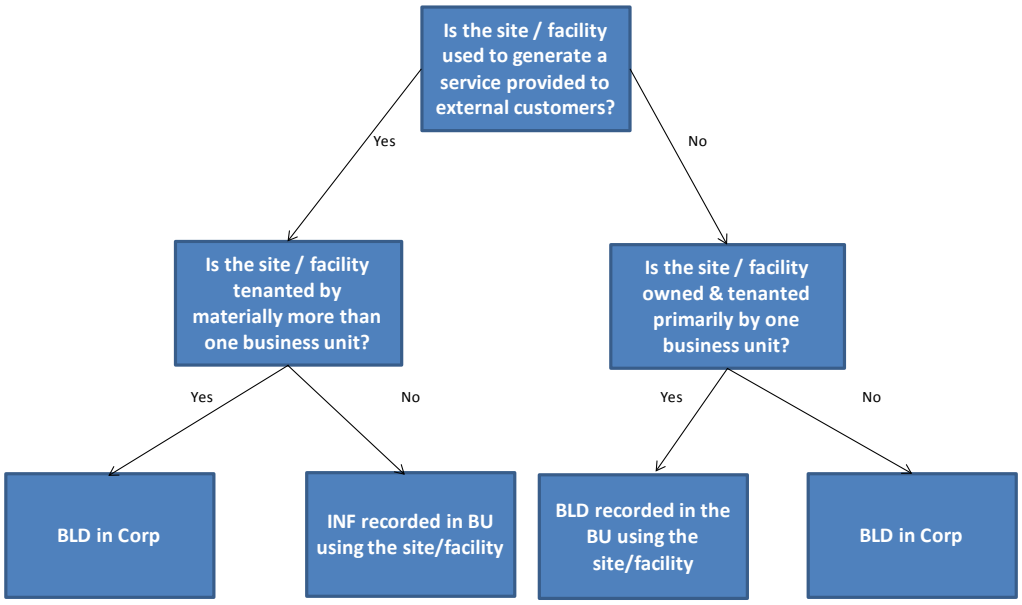
Operating equipment consists of physical assets used to support the production or supply of goods and services, or for environmental or administrative purposes. They have limited useful lives and are subject to depreciation.

Buildings and Improvements

Buildings are structures attached to the ground that are not used to directly generate a service provided to external customers; or that are tenanted by more than one business unit. Buildings are physical assets with limited long-term service potential. They are therefore subject to depreciation.

Buildings that are used to generate a service provided to external customers such as sub-station buildings are considered infrastructure for the Corporation and are categorised as such within the relevant business unit.

The following decision tree assists with the designation of a building under either infrastructure or buildings.



Leased Assets

Leasehold Land - Land leased/rented from an external party. Power and Water have the right to use the land for the period of the lease or rental agreement. Leasehold land is only capitalised in the asset registers where the lease is classified as a finance lease.

Leasehold Buildings - Buildings leased/rented from an external party. Power and Water has the right to use the building for the period of the lease or rental agreement. Leasehold buildings are only capitalised in the asset registers if the lease is classified as a finance lease.

Leased Plant and Equipment - Plant and equipment leased/rented from an external party. Power and Water have the right to use the plant and equipment for the period of the lease or rental agreement. Leasehold plant and equipment are only capitalised in the asset registers if the lease is classified as a finance lease.

For further information, contact the Finance Fixed Assets team.

3.3 Non-Maximo Low Value Asset Pools

3.3.1 Objectives

The objective of this section is to provide the treatment of low value assets that have a cost equal to or less than $20,000 that are non-Maximo assets; meaning they are not set up as an asset and tracked in the Maximo system for maintenance purposes.

3.3.2 Low Value Assets

Non-Maximo assets costing less than $20,000 are to be capitalised to an asset pool. The life of the pool will be the average of the individual assets in the pool each year. Assets allocated to the pool must meet the definition of an asset (refer to 3.2.2). All assets capitalised in the low value asset pool will be subject to periodic audit by finance to ensure the expenditure meets these basic requirements.

Power and Water has chosen not to individually capitalise non-Maximo assets below $20,000 for the following reasons:

- administrative costs are reduced as there are many steps in the capitalisation process to track and capitalise costs;
- the number of assets held in the registers is reduced, which speeds up reporting and reduces effort when analysing and maintaining the registers; and
- Power and Water does not track maintenance expenditure on non-Maximo assets less than $20,000.

3.3.3 High volume/low value Maximo pooling of assets as one annual asset

Assets are often purchased in large quantities with the same qualities; e.g. meters. These can be pooled and recorded under a single FFAR asset number if the assets have the following similar attributes:

- capacity;
- description;
- useful life;
- purchase period; and

- location.

For example, 100 water meters are purchased over the year 2016/17. All the meters are approximately the same; with the same capacity and the expectation they will all require replacement in five years. These assets may be capitalised as a single asset with one description (eg 2017 water meters), a combined value and a quantity of 100. The following year, all water meters will be pooled and capitalised as a single asset (e.g. 2018 water meters). For efficiency, all assets in pools will not be tracked for retirement.

3.4 Components

3.4.1 Objectives

The objective of this section is to provide planning and guidance to correctly apply an appropriate accounting treatment to the components of property, plant and equipment. The break-down of assets into their components is essential for the distinction between capital expenditure and repairs and maintenance (refer 3.1 Capital or Operating Expenditure).

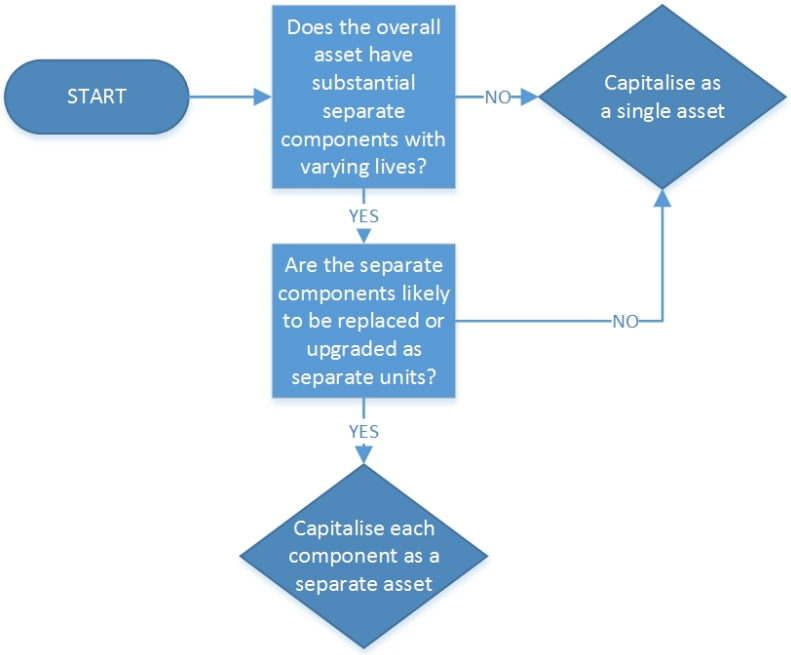
3.4.2 Component Accounting

Many of Power and Water's assets are complex assets and will comprise many parts, each with different attributes. These component parts will often have different useful lives.

The replacement of a component is the lowest level at which a cost may be considered to be capital expenditure. Costs on a lower level than the entire component is considered to be repairs and maintenance (refer 3.1 Capital or Operating Expenditure).

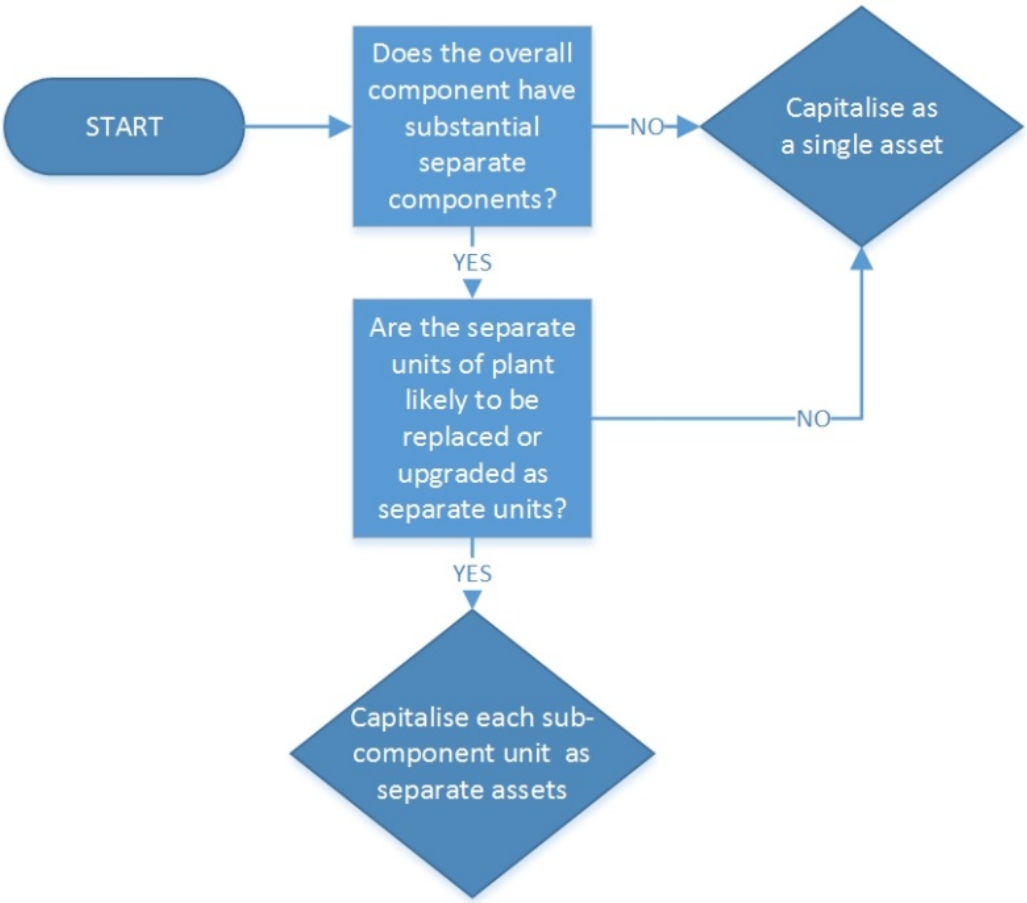
3.4.3 Unit of Plant

The unit of plant is the lowest level of componentisation that is required for an item of property, plant and equipment. This is the lowest level of componentisation required in the FFAR.



Where a number of components are identified, then the remainder of the asset is depreciated as a single component. A reasonable approximation can be used for the useful life (AASB 116.46).

It should be noted that major periodic maintenance also meets the definition of an individual component (AASB 116.14) (refer 3.2.4(c) Major Periodic Maintenance). It is possible that the components may have sub-components, which will again have vastly different useful lives. An example of a componentised asset is a zone substation.



The components will be reflected in each business unit's asset register as individual assets within the FFAR. An item of property, plant and equipment must be **separated into component assets** in the FFAR, when those parts have **a different useful life** to other components, or if there is likelihood of replacement throughout the parent asset's useful life (AASB 116.44).

3.4.4 Capitalisation Decision

Component assets are subject to the same basic recognition tests as all other tangible assets.

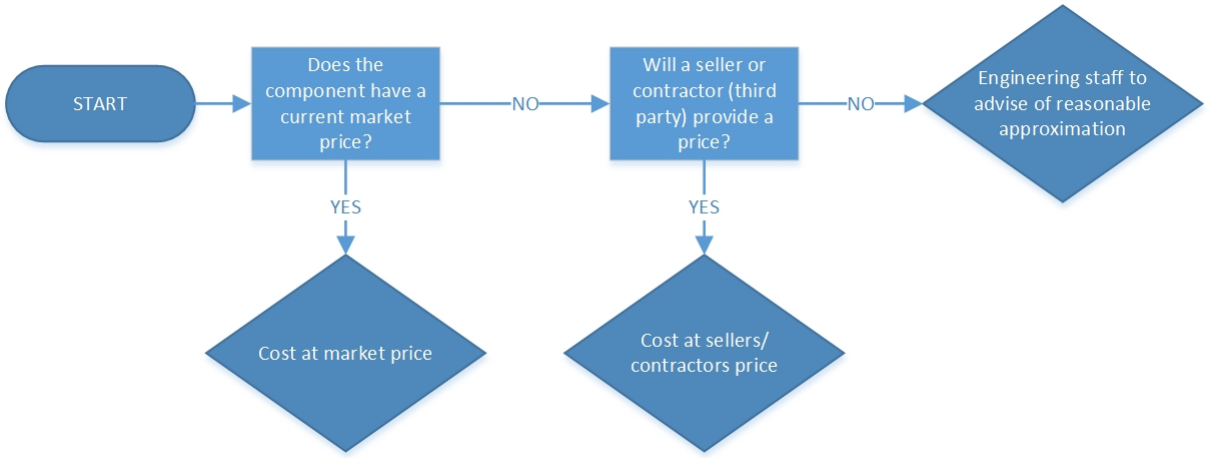
All of the following tests must be satisfied in order for expenditure to be capitalised as an asset:

- the life of the asset must be one year or greater; and
- it must be probable (> 50% chance) that Power and Water will derive value from the asset; and
- the asset is controlled by Power and Water.

3.4.5 Component Costing

When the component of an asset is a physical component that is constructed separately, then the carrying amount of the component will be its cost. An explanation of the expenditure to be included in the 'cost' of a component is included in 3.2.2 Capitalisation Decision.

However, many of Power and Water's componentised assets will be purchased as a whole when the overall asset is new and the cost of the individual component will not be known. The following flowchart indicates the guidance applied when determining the cost of a component.



Note: The price of the component based on market or third party price cannot be more than the value of the parent asset.

3.4.6 Replacing a Component

When a component is replaced prior to the completion of its useful life, the carrying value of the original component should be written-off immediately because it has effectively been disposed of. The amount written-off should be recognised in the profit and loss.

3.5 Capital Contributions and Gifted Assets

3.5.1 Objectives

The objectives of this section are to provide planning and guidance for the treatment of monetary (capital contributions) and non-monetary (gifted assets) capital contributions from government entities or private customers.

The following items are specifically outside the scope of this plan:

- customers contributing to recoverable works and external cost of sales construction projects; and
- instances where Power and Water provides capital grants to third parties.

Capital contributions are received for many reasons. Some examples are:

- to connect the customer to a network;
- to provide the customer with ongoing access to supply of utilities; or
- to expand the network.

3.5.2 Monetary Contributions (Capital Contributions)

Power and Water receives monetary contributions from external parties to construct an asset. This is usually where the customer requires a new asset to access the network and it is not viable for the asset to be funded by Power and Water. Power and Water may fund a portion of the construction and then request a capital contribution for the remainder. The assets will become the property of the Corporation. These are commonly called capital contributions.

Two examples are:

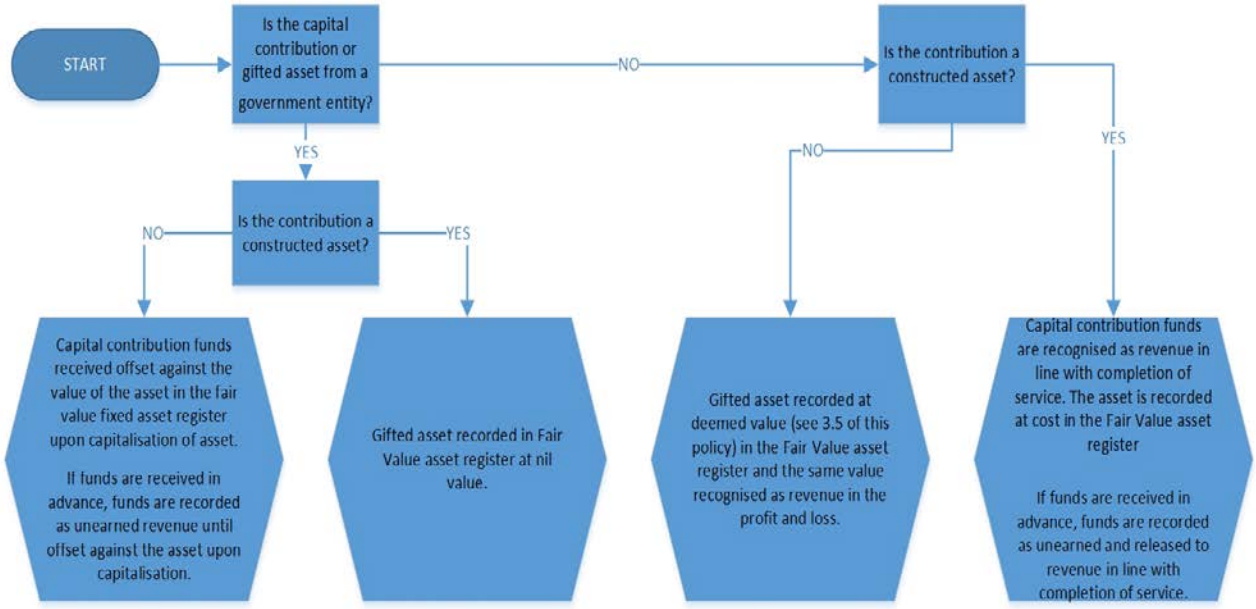
- The NT Government has contributed 70 per cent of the cost of undergrounding power lines in Darwin suburbs. The asset is owned fully by Power and Water at the end of the project.
- A rural customer requests connection to the power grid. The customer pays Power and Water a partial contribution to connect to the power grid via a new line. The new line becomes the property of Power and Water on completion of the project.

3.5.3 Non-monetary Capital Contributions (Gifted Assets)

Power and Water receives non-monetary contributions in the form of property plant or equipment from third parties. These are called gifted assets. Examples of gifted assets are the water and sewage pipes constructed when a new suburb is developed. These assets are gifted and all future maintenance and replacement becomes the responsibility of Power and Water.

3.5.4 Recognition for Accounting Treatment - PWC only (IES at 3.5.8)

Accounting Standards require differing accounting treatment of capital contributions and gifted assets depending on the associated party; in particular, whether the party is a government entity. (See definition for government entity in 4. Definitions – this includes federal, state and local government). The following flow chart is to determine the appropriate accounting treatment for capital or gifted assets from third parties.



A Recognition of contributions from Government entities

Both capital contributions and gifted assets from Government entities are to be treated in accordance with Accounting Standard AASB 120 *Government Grants.*

For capital contributions there is no revenue recognition upfront but rather the value of the contribution is offset against the asset when it is capitalised into the fixed asset register.

In the event that funds are received in advance, funds are recorded as unearned revenue on the balance sheet and then offset against the value of the asset when it is capitalised in the fixed asset register.

Neither capital contributions nor gifted assets can be recognised in the accounts unless:

- there is reasonable assurance that Power and Water will comply with the conditions attaching to them; and
- reasonable assurance that the grants will be received.

B Recognition of contributions from Non-Government entities

Contributions, both capital contributions and gifted assets from non-Government entities are to be treated in accordance with Accounting Standard AASB Interpretation 18 *Transfers of Assets from Customers.*

For capital contributions, revenue is recognised in the profit and loss and the full value of the asset is capitalised into the fixed asset register. Revenue is recognised as follows:

Power & Water Activity	Timing of Revenue Recognition
Construct a stand-alone asset	Recognise revenue when the asset construction is complete and it is ready for use.
Construct a Network asset	Recognise revenue proportionally as the parts (e.g. suburbs or sections) of the network are complete and ready for use.
Provide a service to a customer	Recognise revenue proportionally over the period the service is rendered.
Receive a gifted asset	Recognise revenue when control of the asset is obtained. This is generally when PWC holds responsibility to maintain the asset and can approve or deny access to the asset by others. Refer 3.5.4 to establish the value of the gifted asset recognised as revenue and as an asset in the Fixed Asset Register.

All other situations require the professional judgement of Financial Accounting. In particular, if future access to a network is offered at a discount rate in any of the above listed point, contact Asset Accounting within the Finance team.

C Gifted assets received from Government entities

Power and Water's gifted assets from Government entities are to be recorded at fair value less the value of the grant to determine carrying amount. In many instances this will result in the asset's carrying amount as being nil.

D Gifted assets received from Non-Government entities

Power and Water's gifted assets from non-government entities are to be recorded at **fair value** upon recognition (AASB Interpretation 18) at current replacement cost. The current replacement costs are determined by unit rates provided by the most recent valuation carried out by the Corporation.

3.5.5 Taxation Treatment (applies to PWC only)

The treatment of monetary contributions and gifted assets for taxation purposes is governed by the *Income Tax Assessment Act* and differs from the accounting treatment outlined above. The *Income Tax Assessment Act* does not apply differing treatment between government or non-government contributors.

The effect of this is that where monetary contributions or gifted assets are received from government entities, an asset is capitalised in the Tax Fixed Asset Register at different values to the Fair Value Fixed Asset Register.

3.5.6 Replacement/Insurance Treatment

The treatment of monetary contributions and gifted assets for replacement/ insurance purposes is based on the fact that the Replacement Fixed Asset Register is established to obtain a replacement value of all assets to get appropriate insurance coverage. For the purposes of insurance there is no differing treatment between government or non-government contributors.

The effect of this is that where monetary contributions or gifted assets are received from government entities, an asset is capitalised in the Replacement Cost Fixed Asset Register but it is not capitalised in the Accounting Fixed Asset Register.

3.5.7 PWC Regulatory Treatment

The treatment of monetary contributions and gifted assets for regulatory purposes is governed by the "building blocks" approach used to calculate tariffs where no return is allowable on assets either gifted or where a contribution has been received. Therefore, all contributions or gifted assets are required to be separately identified in the FFAR.

3.5.8 IES Accounting Treatment

The treatment of monetary contributions and gifted assets received by IES Pty Ltd is governed by AASB 1004 Contributions. As a not for profit organisation, it does not matter whether the gifted asset was received by a government or non-government entity. Gifted assets are recorded at replacement cost in the IES Fixed Asset Register. This is the same for all IES FARs.

The effect of this is that where monetary contributions or gifted assets are received, an asset is capitalised in the IES Fixed Asset Register at replacement cost (as per the most recent valuation) and revenue is recognised in the profit and loss.

3.5.9 Summary Table of Capital Contributions and Gifted Assets Treatment

Power and Water Corporation

	Fair Value FAR	Historical Cost FAR	Tax FAR	Replacement Cost FAR
Government Contribution				
Gifted Asset	Asset recorded in asset register at nil value	Asset recorded in asset register at nil value	Asset recorded at fair value (deemed cost) and revenue	Asset recorded at replacement cost value
Capital Contribution	Capital contribution funds received offset against the value of the asset in the fixed asset register upon capitalisation of asset.	Capital contribution funds received offset against the value of the asset in the fixed asset register upon capitalisation of asset	Asset recorded at cost. Contribution recorded as revenue	Asset recorded at replacement cost value
Non - Government Entity				
Gifted Asset	Asset recorded at fair value and as revenue	Asset recorded at fair value	Asset recorded at fair value (deemed cost) and as revenue	Asset recorded at replacement cost value
Capital Contribution	Asset recorded at cost. Contribution recorded as revenue	Asset recorded at cost	Asset recorded at cost. Contribution recorded as revenue	Asset recorded at replacement cost value.

IES Corporation

	Fair Value FAR	Historical Cost FAR
Government Contribution		
Gifted Asset	Asset recorded at fair value and as revenue	Asset recorded at fair value
Capital Contribution	Asset recorded at cost. Contribution recorded as revenue	Asset recorded at cost
Non - Government Entity		
Gifted Asset	Asset recorded at fair value and as revenue	Asset recorded at fair value
Capital Contribution	Asset recorded at cost. Contribution recorded as revenue	Asset recorded at cost

3.6 Capitalisation of Internal Costs

3.6.1 Objectives

The objective of this section is to provide planning and guidance for the capitalisation of internal costs in line with the Australian Accounting Standards. Capitalisation of internal costs follow the same framework as all other expenditure within Power and Water. Determining the type of expenditure can have a major effect on the profit and loss of Power and Water and future revenues, as revenue will be determined by Australian Energy Regulator based on the Power and Water's Fixed Asset base.

3.6.2 Overhead costs (PWC Only)

Power and Water's core business is to operate and maintain power and water services within the Northern Territory. A portion of total overhead costs are incurred to primarily support capital activities and can therefore be capitalised. The Corporate Allocation Methodology (CAM) model will be used to build an appropriate overhead rate of relevant internal costs that will then be allocated to capital projects based on labour hours x overhead rate. Internal overhead costs to be analysed for relevance include:

- storage and logistics costs;
- vehicle fleet costs;
- corporate support costs;
- travel costs;
- occupancy costs; and
- IT costs.

Overhead costs for IES are not capitalised at this time.

3.6.3 Direct Internal Costs to be Capitalised

The other focus of the decision on internal cost capitalisation is whether the cost is 'directly attributable'. When considering the 'direct' nature of the expenditure to the associated asset, it is necessary to have some form of evidence to support the value or measurement of the expenditure, and the method of identification of asset costs. For example, a staff member working on the construction of a new substation will have a timesheet stating the project or asset they are working on, with the number of hours they worked and a salary level or rate.

3.6.4 Direct Internal Cost Examples

Labour and Labour related costs

Salaries, wages and other employee related costs can be directly attributed to a project based on timesheets. The Corporation's system can incorporate different rates based on staff salary levels. The employee related costs will include: staff related insurance costs, overtime costs and other salary package costs (such as company phones and cars).

Contractor costs

Contractor wages, salaries and associated costs can be attributed to a project based on the purchase order or business case for their engagement.

Material, storage and logistics costs

Administration, warehousing costs and logistics for materials used directly for the construction of an asset or acts to bring an asset into use, may be capitalised if sufficient evidence to support the direct nature of the expenditure is maintained. Delivery receipts for material used on a particular project would be considered to be sufficient documentation.

Vehicle fleet costs

Motor vehicle, internal fleet operating (eg registration, fuel, etc), management and administration costs may be consolidated and divided by the number of available hours to provide a standard vehicle rate. This rate may be applied to timesheets maintained per vehicle to ensure the direct nature of the expenditure is supported.

A Example 1a

Fleet cars are available for employee use. Each car is available for 1950 hours per year. There are no check-in or check-out sheets used per car to identify who is using the car at a given time, or which project they are working on. Due to no evidence of the car expense being directly attributable to an asset, the cost of the car must be expensed through profit and loss in the current period.

B Example 1b

An employee uses a fleet car on a capital project (ie a project to construct a new asset). The employee signs the car out for the month of January, and documents the project number he is working on during this time. The costs of the car during the month of January (ie fleet costs, fuel costs, oil, etc) can be capitalised under the associated project.

3.7 Fair Value Measurement

3.7.1 Objectives

The purpose of this section is to detail the methodology used to determine the Fair Value of Power and Water's Fixed Assets as disclosed in Management Reporting, Annual Financial Statements and the Statement of Corporate Intent (SCI).

3.7.2 Policy and Accounting Standards

Power and Water has adopted AASB 116 "Property, Plant and Equipment" and AASB 13 "Fair Value" in determining the fair value of property, plant and equipment.

Property, plant and equipment is initially recorded in Power and Water's FFAR at cost (refer 3.2 Capitalisation). Once the asset has been recognised, Power and Water is required to consider the value of the asset to determine if it is valued at fair value for reporting and disclosure purposes.

As per AASB 116:

> *"After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.*

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period".

AASB 116 requires each class of assets to be measured on either the cost model or revaluation model basis. Assets are then subject to depreciation, impairment and de-recognition/disposal.

From 1 July 2014 Power and Water has elected use the revaluation model to determine the fair value of property, plant and equipment for financial reporting purposes. Therefore AASB 13 "Fair Value" must be considered in recording the fair value of assets in the financial statements.

Accounting Standard AASB 13 "Fair Value" defines fair value and the framework for measuring fair value, which is used as the basis of the fair value calculation.

3.7.3 Class of Assets

If a single item of property, plant and equipment is revalued the entire class of property, plant and equipment to which that item belongs must be revalued.

The following classes of assets have been identified at PWC and IES:

- Land
- Buildings
- Infrastructure
- Operating Equipment
- Office Equipment
- Intangibles
- Finance Lease

Separate disclosures must be made for each class of asset in the notes to the financial statements [AASB 116 para 73].

3.7.4 Determining Fair Value

Fair Value as per AASB 13:

"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

1. Paragraph 61 of AASB 13 requires that an entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The standard recognises that there are three widely used valuation techniques; the market approach, the cost approach and the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.
2. The cost approach (ie depreciated replacement cost) reflects the amount that would be required currently to replace the service capacity of an asset, adjusted for obsolescence. The replacement cost is the minimum that it would cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent new asset with the

same economic benefits, allowing for any differences in the quantity and quality of output and in operating costs.

3. The income approach converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

When determining the appropriate valuation approach, consideration was given to the nature of Power and Water's assets.

Land and Building

The fair value of land and buildings has been determined from market-based evidence by appraisal undertaken by professionally qualified valuers.

Infrastructure Assets

A large portion of the fixed assets owned by Power and Water are of a specialised nature and it is generally accepted that little or no active market exists for these assets. As there is no active market for the sale or transfer of many of Power and Water's assets, the fair value methodology used is dependent on the individual asset or group of assets. As most of the assets are infrastructure assets and part of a complex asset, the valuation methodology is applied by asset class.

In the absence of sufficient market evidence, and the fact that Power and Water derives income from using infrastructure assets to provide a service, income approach has been used to value infrastructure assets.

3.7.5 Fair Value Hierarchy

When measuring the fair value of an asset or a liability, Power and Water uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumption that market participants would use when pricing the asset or liability.

If there are transfers between the levels of the fair value hierarchy they are recognised at the end of the reporting period during which the change has occurred.

3.7.6 Valuation Techniques

For the purpose of fair value disclosures, Power and Water has determined classes of assets on the basis of the nature, characteristics, risks and the level of the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole.

Using the classes of assets as determined in 3.7.3, the following table details Power and Water's valuation techniques by asset class:

Asset Class		Valuation Approach	Basis for Approach
Land and buildings	Specialised land	Market approach	There is an active market for these assets. Current selling prices are available for similar assets
	Non-specialised land	Market approach	
	Buildings	Market approach	
Infrastructure systems	Water and sewerage	Income based approach	No active market and specialised in nature. The value is primarily driven by its income/profit generating capabilities
	Electricity generation	Income based approach	
	Electricity distribution and transmission	Income based approach	
Operating equipment	Non-specialised plant and equipment[1]	Cost approach	Based on the cost to acquire or construct a substitute asset
Finance lease		Lease contract value	Finance leased assets do not change value over the life of the contract
Intangible assets		Cost approach	Based on the cost to acquire or construct a substitute asset
Work in progress		Historical cost	Current expenditure is the most reliable form of current value for WIP

[1] **Note:** Non-specialised assets are assets which do not relate to infrastructure assets (ie assets that are not related to water and power services). These assets include general equipment, vehicles, non-network IT and communications.

3.7.7 Cost Approach (depreciated replacement cost measurement)

The depreciated replacement cost approach was chosen due to its ability to demonstrate an amount reflective of replacement cost and to avoid impairment resulting from tariff caps.

Depreciated replacement cost estimates the cost of a modern equivalent asset at the relevant valuation date. This may involve estimating the cost of having a suitable asset commissioned to order.

The replacement cost needs to reflect all incidental costs that would be incurred, for example for design, delivery, installation and commissioning.

In the case of specialised property, the cost of acquiring land suitable for the development of an equivalent specialised facility in the market should be included, together with the cost of all improvements that would be required to be done to the land.

The Valuer then estimates depreciation by comparing the modern equivalent asset with the asset being valued. Depreciation rates may be all-encompassing or analysed separately for:

- physical deterioration;
- functional obsolescence; and
- external obsolescence.

In estimating the physical deterioration of the actual asset resulting from wear and tear over time, including any lack of maintenance, different valuation methods may be used for estimating the amount required to rectify the physical condition of the improvements.

Functional obsolescence can be caused by advances in technology that result in new assets being capable of a more efficient delivery of goods and services. Modern production methods may render previously existing assets fully or partially obsolete in terms of current cost equivalency. The application of the optimisation process will account for many elements of functional obsolescence.

Obsolescence resulting from external influences may affect the value of the asset. External factors include changed economic conditions, which affect the supply of and demand for goods and services produced by the asset or the costs of its operation. External factors also include the cost and reasonable availability of raw materials, utilities, and labour.

In the application of depreciated replacement cost the key elements of a market transaction should also be considered including:

- an understanding of the asset, its function, and its environment;
- research and analysis to determine the remaining physical life (to estimate physical deterioration) and economic life of the asset;
- knowledge of changes in preferences, technical innovations, and/or market standards that may affect the asset (to estimate functional obsolescence);
- an analysis of potential external changes that may affect the asset (to estimate external obsolescence);
- familiarity with the class of property through access to available market data;
- knowledge of construction techniques and materials (to estimate the cost of a modern equivalent asset); and
- sufficient knowledge to determine the impact of external obsolescence on the value of the improvements.

3.7.8 Use of Experts

Due to the complexity involved in determining the fair value of Power and Water's property plant and equipment, independent Valuers who are deemed experts are engaged to assist in the determination of fair value. These valuations form the basis of the fair value calculations for each asset class each financial year.

3.7.9 Review of Valuation Technique

The valuation techniques and associated hierarchy are reviewed in each valuation review cycle and adjusted if there is a material change in the circumstances to which the original valuation technique was based on.

The valuation hierarchy for each class of assets is disclosed in the annual financial statements and is reviewed / updated at each revaluation cycle.

3.7.10 Frequency of Valuations

The frequency of revaluations depends upon the frequency and materiality of changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount a further revaluation is required. Some items of

property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation.

Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the assets every three to five years as per guidance provided by AASB 116 para 34.

Assets may be revalued on a progressive basis within a reporting period provided the carrying amount of the asset does not differ materially from its fair value at the reporting date.

Under normal circumstances Power and Water will undertake full valuations for each asset class on a rolling five year basis. Power and Water has determined the:

- nature of the business is constant and does not change year upon year;
- use of the assets remains constant therefore the economic lives do not significantly move year upon year;
- environment in which the asset operates is consistent; and
- most assets have long useful lives and therefore the depreciated replacement costs would not significantly fluctuating year upon year.

An annual review process will be performed to monitor movements in fair value, taking into consideration:

- recent Power and Water experience of the cost of construction of similar assets;
- movements in value as indicated by relevant indices;
- information from customers and suppliers in the relevant period regarding the cost of construction of similar assets; and
- consultation with Valuers as to valuation trends in the period since the previous revaluation.

To ensure the fair value is true and fair the Asset Accounting team confirm on an annual basis that there have been no material movements in the underlying assumptions which formed the basis of the valuations with the independent Valuers.

The Asset Accounting team is responsible for maintaining and co-ordinating the rolling five year valuations.

3.7.11 Accounting Treatment

When there is deemed a change in fair value of an asset or class of asset, the book value needs to be updated in the Fair Value Fixed Asset Register (refer 3.8 Revaluation).

3.8 Asset Revaluation

3.8.1 Objectives

The objective of this section is to provide guidance on the accounting treatment as a result of the revaluation of property, plant and equipment. Revaluations may occur as a result of applying “Fair Value”, as per section 3.7 Fair Value Measurement.

3.8.2 Policy and Accounting Standards

AASB 1041 Revaluation of Non- Current Assets prescribes the manner in which non-current assets are measured and recorded subsequent to initial recognition. This plan details the accounting transaction as a result of an asset or class of asset being revalued.

3.8.3 Definition of Revaluation

A revaluation is the act of recognising a reassessment of the carrying amount of a non-current asset to its fair value as at a particular date; excluding recoverable amount write-downs and impairment losses.

3.8.4 Accounting Treatment for Depreciating Assets

Under AASB116, accumulated depreciation is treated in one of two ways when an item of property, plant and equipment is revalued:

- Option 1 - Eliminated against the gross carrying amount of the asset with the net amount restated to equal the revalued amount.
- Option 2 - Restated proportionate to the change in the gross carrying amount of the asset such that the net book value of the asset after revaluation equals its revalued amount.

Power and Water uses the Option 1, as detailed above (refer 3.7 Fair Value Measurement).

1. Cost Approach for valuation - the gross amount and the related accumulated depreciation are separately restated – Option 1.
2. Income or Market approach for valuation - any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net asset carrying amount is restated – Option 1.

3.8.5 Revaluation Movements

Where a class of non-current assets is revalued, the net revaluation increment or net revaluation decrement arising in the reporting period must be accounted for as follows:

Revaluation increment

- The value of the asset class is increased and the Asset Revaluation Reserve account is credited by the corresponding amount.
- Except where the increment reverses a net revaluation decrement previously recognised as an expense in net profit or loss/result in respect of that same class of non-current assets. In this instance the increment must be recognised immediately as revenue in net profit or loss/result to the extent of the previously recognised loss.

Revaluation decrements

- Are recognised immediately as losses.
- Except where the decrement reverses a previously recognised net revaluation increment. In this instance, the Asset Revaluation Reserve is debited to the extent that a credit exists in the Asset Revaluation Reserve in respect of the same class of assets.

Disposal

- Where an asset that has previously been revalued is disposed of, any balance remaining in the Asset Revaluation Reserve in respect of that asset is transferred to retained earnings. This transfer is made through equity and not through the Statement of Comprehensive Income.

3.8.6 Revaluation of Asset Classes

The balance of an asset revaluation reserve in respect of a class of non-current assets must only be credited with net revaluation increments recognised for assets within the same class of non-current assets.

Revaluation increments and revaluation decrements must be offset against one another within a class of non-current assets, but must not be offset in respect of different classes of non-current assets.

Example 1 – Revaluation of Land

Power and Water owns land with a value of $1,000,000. This asset comprises the entire class of non-current assets and no revaluation increments, revaluation decrements or impairment losses have been recognised in respect of that class of assets in prior years.

A On 30 June X6 the block of land is revalued to $1,500,000.

The journal entries required to recognise the revaluation are as follows:

DR Land Assets	$500,000	
(Increase in Assets – Balance Sheet)		
CR Asset Revaluation Reserve – Land		($500,000)
(Increase in Equity – Balance Sheet)		

B On 30 June X7, the block of land is revalued to $800,000. The journal entries to recognise the revaluation are as follows:

DR Asset Revaluation Reserve – Land	$500,000	
(Decrease in Equity – Balance Sheet)		
DR Loss on Revaluation of Land Assets	$200,000	
(Increase in Expenses – Operating Statement)		
CR Land Assets		($700,000)
(Decrease in Assets – Balance Sheet)		

In other words, the reversals of previous revaluations are, as far as possible, to be accounted for by entries which are the reverse of those by which the previous revaluations were recognised.

Example 2 – Revaluation of Infrastructure

Power and Water currently carries an infrastructure asset at a value comprising cost of $2,000,000 and accumulated depreciation of $400,000.

The asset is revalued to $1,200,000 based on an estimate of the depreciated replacement cost. The journal entries required to recognise the revaluation are as follows:

DR Loss on Revaluation of Infrastructure Assets	$400,000

(Increase in Expenses – Operating Statement)		
DR Accumulated Depreciation	$400,000	
(Increase in Contra Asset – Balance Sheet)		
CR Infrastructure Assets		($800,000)
(Decrease in Assets – Balance Sheet)		

3.9 Asset Transfer (Permanent/Temporary)

3.9.1 Objectives

The objective of this section is to detail the plan for transferring assets between business units.

3.9.2 Permanent Asset Transfer

Asset transfers can only be initiated when an agreement has been reached between the business unit General Managers (transferee and transferor). The Asset Transfer Form is to be used for transferring assets on a permanent or temporary basis. The Asset Transfer Form needs to contain the list of assets to be transferred on FMS, with the following information:

- FMS asset number*
- asset serial number
- asset item description
- Net Book Value*
- quantity
- asset return date
- both General Managers' signatures

*Asset number and Net Book Value from the Financial Fixed Asset Register.

The completed Asset Transfer Form (Permanent/Temporary) should be scanned and emailed to Asset Accounting, by the business unit receiving the asset.

Both business units shall retain a copy of the completed and signed Asset Transfer Form.

A transfer will occur in the same month that Asset Accounting receives it. Only with both General Managers approval will the transfer be backdated up to the earlier of the beginning of the current financial year or another agreed date.

Once the asset register has been updated a confirmation of the transfer will be emailed out to the business units concerned.

3.9.3 Temporary Asset Transfer

If the asset is on a temporary transfer, the General Managers' signatures on the original Asset Transfer Form will be required for the transfer of the asset back to the original business unit and the confirmation of receipt of the asset by the receiving General Manager. The completed form shall be emailed to Asset Accounting.

Assets will only be adjusted in the asset register on a temporary basis if the following conditions are met:

- the transfer period is over six months; and

- the Book Value of the asset transferred is greater than $500,000.

The transfer will occur in the same month that the Asset Accounting team receive it.

Both business units shall retain a copy of the completed and signed Asset Transfer Form.

Note: In the event that a temporary transfer asset is required for an extended period after the agreed date of return, a new Asset Transfer Form shall be completed and the above processes followed.

3.10 Verification of Fixed Assets

3.10.1 Objectives

The objective of this section is to detail the verification requirements for property, plant and equipment assets.

3.10.2 General purpose

The purpose of an asset verification is to verify the existence of asset(s), and reconcile the existence with the FAR.

Assets are recorded at fair value to ensure they represent a true and fair view of the actual financial position information, as detailed in 3.7 Fair Value Measurement.

Whilst the Fair Value plan determines the book value confirmation, the existence of the assets is required through verification.

3.10.3 Timing

The verification process will be dependent on the asset class and approved processes. It may include:

- a physical verification eg motor vehicle;
- a system verification eg computer hardware;
- confirmation of existence by the asset experts eg software; and
- reconciliation to the AMC system eg maintenance records of complex assets.

The Asset Accounting team will maintain the reconciliation between the AMC system (Maximo) and the Financial Fixed Asset Register (Oracle) on a monthly basis. For all other fixed assets, a (maximum of) five years for verification review will be required.

Verifications will require certification by the relevant business unit Manager or delegated staff and General Manager.

3.10.4 Discrepancies

All discrepancies will be investigated.

Any assets that are missing from the asset register will need to be added in with full details as to how they were purchased or arrived at that site. All assets within the Maximo should be reconciled to the FFAR.

Where any asset transfers have taken place without the relevant documentation, an Asset Transfer Form shall be completed by the business unit Manager through their General Manager for approval to amend the asset register (refer 3.9 Asset Transfer).

Any missing assets should be investigated by the business unit giving reasons for the asset no longer being owned and the disposal approved by the General Manager (refer 3.11 Disposals), so that the asset can be removed from the asset register.

The condition of the assets should also be assessed. If an asset is damaged or considered beyond economical repair, steps should be taken by the business unit Manager to dispose of the asset (refer 3.11 Disposals).

3.11 Disposals

3.11.1 Objectives

The objectives of this section are to clearly provide the rules and guidelines for disposal of assets.

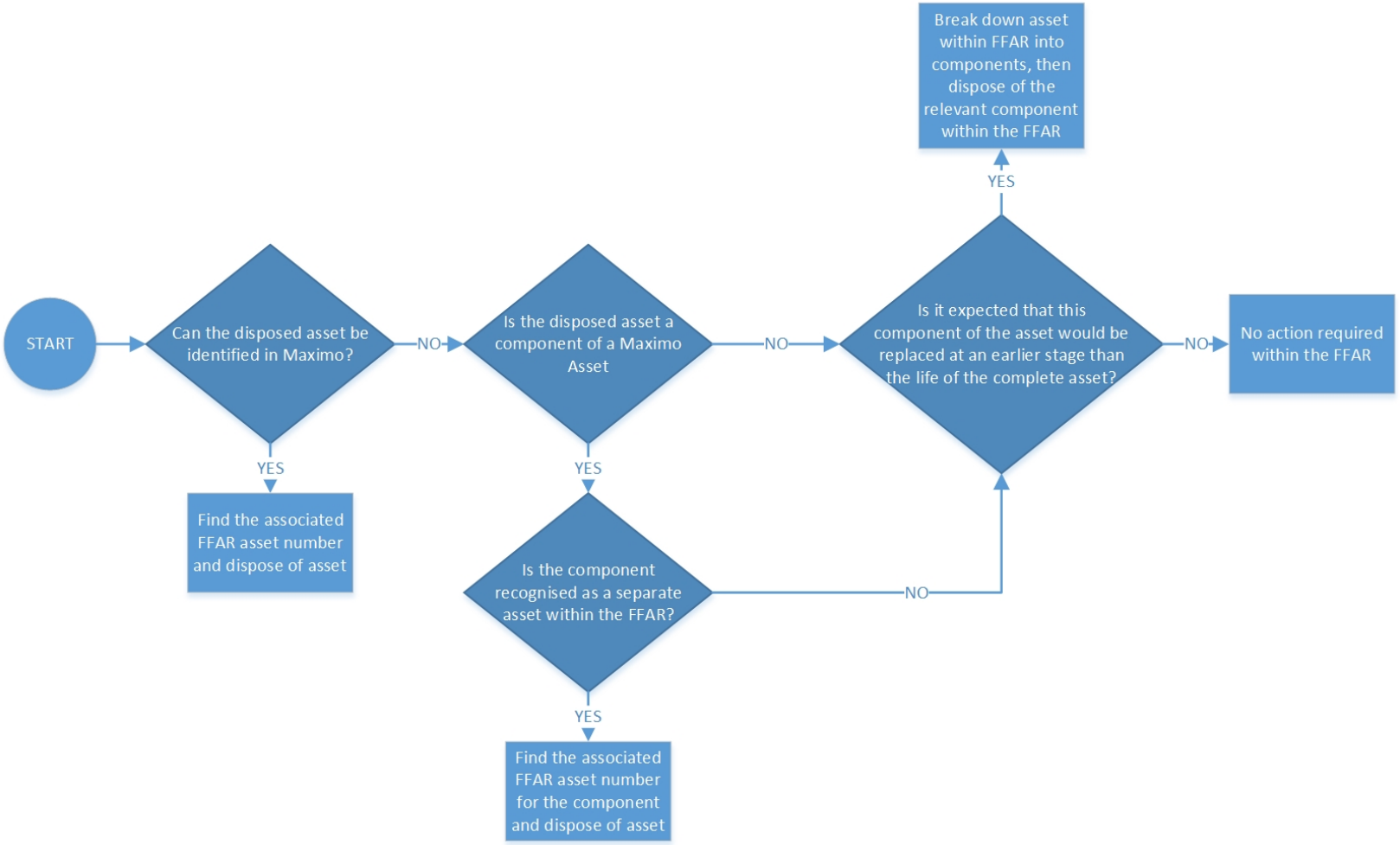
3.11.2 Requirements for Disposal

The section prescribes the following tests for when to dispose of an asset. Assets will be removed from the FFAR when the asset has been:

- subject to all controls required over disposals (refer 3.11.6); and
- removed from the Corporation's sites; and is
- obsolete; or
- beyond economical repair; or
- been upgraded or replaced; or
- been abandoned.

The disposed asset must be removed from all FFAR registers (fair value, historical costs, tax, etc.) to ensure all registers are current and accurate. Some assets may not be individually recorded or identified in the FFAR. The following flow chart outlines the decision logic to be used.

3.11.3 Decision Chart for Asset Disposals



3.11.4 Accounting for Disposal

The carrying amount of an item of property, plant and equipment shall be immediately written-off on disposal as an expense to the profit and loss statement.

In some instances, disposed assets have a remaining value to third parties and will be sold. This section prescribes the following accounting treatment.

Any revenue received for a disposal on an asset should be recognised in the 'Profit/Loss on Disposal of Assets' account in the profit and loss, where it will be netted off against the carrying amount of the asset.

The gain or loss is then calculated as:

- sale proceeds, less the related costs of disposal, less the carrying amount at the date of disposal.

3.11.5 Disposal of a previously revalued asset

When a revalued asset is disposed of, the asset revaluation reserve must also be adjusted.

Any balance for the asset in the Asset Revaluation Reserve account must be transferred to the Retained Earnings account when the asset is derecognised.

Example
Asset A had a historical Net Book Value (NBV) of $100
It was revalued to $120
It was sold for $140
The disposal transaction will be recorded as:

DR	Cash	$140
CR	Asset (NBV)	$100
CR	Profit on Disposal of Asset	$40
DR	Retained Earnings	$20
CR	Revaluation surplus	$20

(Note: Depreciation has been ignored for this example)

3.11.6 Controls Over Disposal

As part of the Chief Financial Officer, business unit General Managers and Asset Owners' stewardship of Power and Water's property, plant and equipment; it is critical that assets are physically disposed of responsibly.

The following controls must be implemented to adequately discharge management's stewardship of property, plant and equipment:

- All approvals must occur prior to the disposal of the asset.

All asset disposals must be approved by the business unit General Manager and cash/donation disposals ratified by the CFO.

- Gifting of disposed assets must be approved by the Chief Executive Officer.
- Some of Power and Water's disposed assets will have an substantial value to third parties. It is the responsibility of the asset owner, and ultimate responsibility of the business unit General Manager, to ensure that the scrap value is realised by selecting the most appropriate method of sale, either:
    - sale as scrap;
    - sale by auction or public tender;
    - trade-in; or
    - sale to another government agency;
- All disposals must be recognised in the FFAR.

Ensuring that the disposal is recognised in the FFAR is key to maintaining the accuracy of the register. The FFAR is a key control in ensuring that Power and Water's fixed assets are neither lost, nor otherwise diverted from their intended use. This forms a key part of the stewardship over property, plant and equipment.

3.11.7 Process of Disposal

For all methods, the disposal must be co-ordinated through the relevant asset management officers in Darwin and Alice Springs.

For any disposals involving donations or monetary exchange, a board of survey must be completed (see 3.9.8).

When an Asset/Business Unit Manager identifies an asset that needs to be disposed of, the relevant Asset Management Officer must be contacted. Within Maximo, the asset is marked as 'decommissioned'. At the end of the month, a listing of all 'decommissioned' assets is produced and the Asset Management Officer will note the current written down values (from the FFAR) before presenting the listing to the business unit's Board of Survey Committee and General Manager for approval. The approved listing is provided to the Asset Accounting team within Finance to ensure both Maximo and the FFAR disposes of the same assets at the same time to ensure the two asset systems are holding consistent data.

3.11.8 Board of Survey

For any disposals involving donations or monetary exchange, a board of survey must be completed (see 3.9.8).

A Board of Survey (BOS) process is established by the Disposal Officer for that region, the relevant business unit Manager and an independent Officer. The Committee will determine the best method of disposal and then make a recommendation to the business unit General Manager.

Once the recommendation has been approved in principle by the General Manager, the Board completes a Board of Survey form (available on the intranet) with all of the asset details including disposal date, sale price, disposal method, asset condition, purchaser details and BOS form number.

All completed BOS forms are then forwarded to the Asset Accounting team within Finance for authorisation/ratification by the CFO. Once that authorisation is obtained, the relevant disposal officer is notified in writing so that the disposal can proceed.

The Asset Accounting team retains all original BOS forms for audit purposes and retires the assets in the FFAR.

Note that there is no minimum value on items to be disposed of. The BOS process handles all items from scrap/off cuts of cable through to buildings, land etc and covers all items whether or not they are on the asset register.

3.11.9 Disposals through Asset Verification Process

All fixed assets shall be subject to a five year rolling verification review, refer section 3.10 Verification of Fixed Assets. The verification process *will* be dependent on the asset class and approved processes.

Once the verification has been completed any disposals resulting from the verification need to follow the BOS process as detailed above.

3.11.10 Writing Off Assets

The Chief Financial Officer and the Chief Executive Officer have the power to write off the value of lost, deficient, condemned, unserviceable, abandoned, or obsolete assets resulting from:

- unacceptable causes (that is, inadequate procedures or implementation thereof); and
- acceptable causes (such as fair wear and tear, reasonable obsolescence, within predetermined tolerances).

Where it is considered impractical to recover the value of a loss, or the Board has approved or recommended full or partial discharge from the liability, the approval of a competent authority must be obtained to write off these amounts.

In respect of assets exceeding the values as specified under the Board's delegation, recommendations for write-offs must be submitted to the Shareholding Minister for approval.

Employees are to refer to Power and Water's "Board Delegations of Authority" which can be found on the intranet for a list of approved delegated officers and their limits and restrictions to write off assets. Please note that **all** asset write offs are to be sent to the Asset Accounting team for processing once appropriate delegated approval has been received.

Assets sold, traded-in or gifted are required to be written-off. Employees should ensure that all administrative action, including the reduction to scrap and disposals are forwarded to the Asset Accounting team, who will document the appropriate disposal action. This is done through the BOS process, as a delegated signature is required (refer 3.11.8 Board of Surveys). All other disposals are processed as per 3.11.7.

3.12 Asset Loss or Deficiency

3.12.1 Objectives

The objectives of this section are to clearly provide the plan and guidance when an asset is lost or there is a deficiency.

3.12.2 Responsibility of the Business Unit General Manager

Any loss or deficiency of major or minor assets must be reported to the Business Unit General Manager immediately. The General Manager must perform the following procedures:

- initiate investigations to recover the loss or deficiency;
- account for the loss/deficiency by providing a written explanation;
- notify the Asset Accounting team; and
- seek approval from authorised delegates to write off the value of the asset loss/ deficiency (refer 3.9 Disposals).

3.12.3 Responsibility of Asset Accounting

In the event of any reported asset loss or deficiency, the Asset Accounting team must perform the following procedures:

- promptly advise every loss of a major asset to the Board or delegated officer by means of a preliminary Loss Report;
- forward a copy of the Loss Report to the Chairman of the Audit and Risk Management Committee in cases where the loss was attributable to fraud and/or a breakdown in internal controls; and
- update the Register of Losses and Deficiencies.

The Loss Report (supplied by Business Unit General Manager)

The Loss Report must address the following:

- how and when the loss occurred;
- value of the loss;
- that all practicable action has been taken to recover the loss;
- determine whether the loss or deficiency was caused by fraud, theft, mistake or neglect by any person(s);
- in the case of suspicious circumstances (ie fraud or theft), advise the police as soon as it is practical. Once the loss has been filed with the police, a copy or report number must be supplied to the Asset Accounting team immediately; and
- determine, on investigation, whether there is any defect in the existing system of control. If so, determine what action is proposed to remedy such a defect.

Register of Losses and Deficiencies

The Register of Losses and Deficiencies must provide the following information:

- date of loss/deficiency;
- date loss/deficiency was reported;
- description of the asset lost including value;

- notations to the Asset Register (if appropriate) including a record of the asset identification number;
- cost centre where the loss/deficiency occurred;
- loss registration number;
- nature and circumstances of the loss;
- action taken;
- financial recovery arrangements (if applicable); and
- amount written off (if applicable).

3.12.4 Responsibility of the Board or Delegated Officer

Upon notification of a major asset loss or deficiency, the Board or Delegated Officer must ensure that appropriate action is taken to:

- investigate the cause of the loss;
- identify the person(s) responsible for the loss;
- effect recovery from the employee accountable for the asset where negligence is evident; and
- notify the police if the loss or deficiency is due to fraud or theft.

3.13 Borrowing Costs

3.13.1 Objectives

The objective of this section is to prescribe Power and Water's accounting treatment for the capitalisation of borrowing costs associated with qualifying assets of property, plant and equipment. Additionally, guidance is provided on how to determine what falls into the qualifying asset category. This plan is in compliance with accounting standard *AASB 123 – Borrowing Costs.*

AASB 123 – Borrowing Costs states that all borrowing costs incurred by not-for-profit entities must be expensed in the period in which they are incurred regardless of whether or not they relate to the funding of the construction of qualifying assets. Therefore the following accounting treatment does not apply to Indigenous Essential Services Pty Ltd (IES), a subsidiary of Power and Water.

3.13.2 Background

Effective 1 July 2009, accounting standard *AASB 123 – Borrowing Costs* was amended to exclude the option of expensing borrowing costs relating to qualifying assets. These costs must now be capitalised as part of the cost base of the asset.

The cost base of an asset includes the costs necessarily incurred to bring it to its intended in-service state. If the asset is estimated to cost a considerable amount and takes a prolonged construction period, the borrowing costs incurred during that period as a result of the expenditure on the asset should be regarded as part of the cost of the asset and hence, be capitalised.

Borrowing costs are interest and other costs incurred by the Power and Water in connection with the borrowing of funds. Borrowing costs are only those funding costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Borrowing costs are generally expensed in the Statement of Comprehensive Income for all other purposes.

3.13.3 Identification of Qualifying Assets

An asset is a qualifying asset if:

- it is an item of property, plant and equipment; and
- it takes a substantial period of time to complete.

For the purposes of applying *AASB 123*, Power and Water has determined that a substantial period of time is anything more than 24 months.

3.13.4 Capitalisation Plan of Borrowing Costs

Borrowing costs directly attributable to a qualifying asset must be capitalised during the time of construction as part of the cost base of the asset. Once the asset is brought into service, the capitalisation of borrowing costs relating to that asset will cease.

Commencement of a qualifying asset is deemed to be the date the first expense is recorded on a capital project.

Expenditures on a qualifying asset will need to be reduced by any capital contributions received for the construction of that asset.

In the event that construction of a qualifying asset is being carried out in stages, each part or stage shall be treated separately. Capitalisation of borrowing costs will cease at the earlier of the date of last expenditure on each stage and the date in service of the asset.

Borrowing costs will be capitalised as a cost adjustment to the largest qualifying asset on the capital project within the financial year in which the asset was capitalised. However, this cost adjustment is not recognised in the Tax Register as borrowing costs are immediately deductible.

The calculation of borrowing costs related to the asset will be performed by Financial Services as described in section 3.13.5.

3.13.5 Calculation of Borrowing Costs for Qualifying Assets

Power and Water borrows funds on a pool approach for combined operational and capital expenditure therefore funds cannot usually be specifically attributed a qualifying asset. As such, a capitalisation rate should be applied to the expenditure on each qualifying asset project to determine the eligible borrowing costs.

The capitalisation rate is calculated as the weighted average of the borrowing costs incurred. The capitalisation rate is reviewed by the Financial Controller and approved by the Chief Financial Officer on an annual basis.

The capitalisation rate is applied to each dollar spent on the qualifying asset. The calculation should be done on a regular basis in line with construction of the asset and at a minimum prior to final capitalisation of the asset or at the end of the financial year, whichever is earlier.

3.14 Depreciation

3.14.1 Objectives

The objective of this section is to detail the correct treatment for the depreciation of property, plant and equipment.

3.14.2 Calculating Depreciation

The concept of depreciation is based on the premise that the service capacity (ie value or economic benefits) declines or deteriorates over time. The useful life is the point where, for all practical purposes, the asset no longer provides any further benefit. This is a characteristic common to all items of property, plant and equipment except land.

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

There are four components to calculate the depreciation to be charged against an item of property, plant and equipment:

- useful life;
- depreciable amount;
- residual value; and
- depreciation method.

3.14.3 Useful Life

The useful life of an asset is the period over which it is expected to be available for use. This is defined in terms of the asset's expected use to Power and Water, not to the economic life which is without regard for entity specific factors.

Accounting

The accounting useful lives are based upon advice from expert Valuers or from operations historical knowledge. A depreciation rate has been assigned to each financial asset category reflecting the approved asset life.

Taxation

The taxation useful lives are based upon 'self-assessing effective lives" as per ITAA97 s40-105.

3.14.4 Components

Many of Power and Water's assets will have several components, each with different useful lives.

Each component should be treated as a separate component asset, with its own distinct useful life in accordance with section 3.4 Components.

3.14.5 Existing Assets

As per section 3.2 Capitalisation, there are several ways expenditure on existing assets is capitalised and the plan prescribes specific rules on useful lives.

Asset Enhancements
Additions, replacements or extensions can potentially extend the useful life of an asset. If it is estimated that the addition, replacement or extension increases the useful life of an asset for more than 12 months, then the useful life of the existing asset should be adjusted accordingly.

The depreciation charge is adjusted prospectively and the asset is depreciated over its remaining useful life (AASB 108.36).

Major Periodic Maintenance
The useful life of a Major Periodic Maintenance (MPM) component is the expected frequency of the MPM activity.

Capital Spares
The useful life of capital spares must not be in excess of the useful life of the associated asset (AASB 116.8).

3.14.6 Frequency of Review

The useful lives of all assets must be reviewed at least annually (AASB 116.51).

3.14.7 Residual Amount

Residual value is the estimated amount Power and Water is likely to receive from the disposal /sale of the asset, after deducting the estimated costs of disposal. The estimated costs of disposal do not include the estimate of dismantling, removing or restoring the site that are raised as a contingent liability (AASB 137).

The residual amount of the majority of Power and Water's assets is zero. However, the residual value of an asset should be recognised when it:

- can be readily measured; and
- is probable to materialise at the end of the useful life of an asset.

An example of an asset with a residual value of the original cost is a motor vehicle. All cases of a residual value must be referred to the Finance Fixed Assets team.

3.14.8 Depreciable Amount

The depreciable amount is the cost of the asset, less the residual value.

The cost of the asset refers to:

- the original cost of the asset; or
- the fair value attributed to the asset subject to revelation (refer 3.8 Asset Revaluation).

3.14.9 Depreciation Method

All assets will be depreciated for accounting purposes using the straight-line method, as this best reflects the pattern that future economic benefits are expected to be consumed by Power and Water.

Depreciation is calculated as depreciable amount/useful life. Revalued assets has been allocated a percentage change in depreciable amount and potentially useful life. They will be depreciated as net book value/remaining useful life.

3.14.10 Commencement of Depreciation

Depreciation shall commence when the asset is first available for use (transferred to in-service).

Some capital projects may require assets to be capitalised prior to all costs being allocated to the project. Providing the asset is in use, then depreciation can commence.

3.14.11 Cessation of Depreciation

Depreciation shall cease at the earlier of the date that the asset is:

- disposed, retired or decommissioned; or
- operating capabilities are in doubt.

Depreciation should continue to be calculated even if an asset is temporarily taken out of service and held for future use.

3.14.12 Tax Depreciation

Assets are depreciated for tax purposes under the uniform capital allowance system governed by Division 40 of the Income Tax Assessment Act 1997.

3.14.13 Value of Tax Assets

In accordance with Australian Taxation regulations, assets are not subject to revaluation and must be held at original or historical cost. Cost is as defined in 3.2 Capitalisation.

3.14.14 Useful Life of Tax Assets

As per Section 40-60:

> 40-60(1) A depreciating asset you hold starts to decline in value from when its start time occurs.
>
> 40-60(2) The start time of a depreciating asset is when you first use it, or have it installed ready for use, for any purpose.

The declining value of a depreciating asset is calculated on the basis of the effective life of the asset.

Most assets are depreciation based on straight line, with the exception of Low Value assets which are pooled (refer 3.3) and are depreciated using the diminishing value deprecation rates.

3.15 Financial Fixed Asset Registers

3.15.1 Objectives

This section details the different Financial Fixed Asset Registers used by Power and Water and Indigenous Essential Services Pty Ltd (IES).

3.15.2 Asset Registers

There are four Financial Fixed Asset Registers (books) for Power and Water and two Financial Fixed Asset Registers for IES. As IES is a not-for-profit, it is not subject to tax hence there is not tax book for IES.

The Financial Fixed Asset Registers have different purposes and support different levels of asset reporting as required by Power and Water. All books contain the same assets however different values and/or useful lives have been applied in accordance with the requirements of the book. Refer 3.5 Capital Contributions and Gifted Assets for valuation requirements on gifted and contributed assets.

3.15.3 Power and Water Financial Fixed Asset Registers (FFARs)

Power and Water – Fair Value / Accounting Book

This book provides details of the asset valued at "Fair Value" in accordance with section 3.7 Fair Value Measurement and is used to support the annual financial statements, Statement of Corporate Intent and budgeting and forecasting. The useful lives are in accordance with section 3.14 Depreciation. Depreciation expense is calculated using this book.

Power and Water - Tax Book

This book provides details of the assets valued to comply with Australian Tax legislation. For tax purposes assets are not revalued and are held at historical costs.

Power and Water - Historical Cost Book

This book provides details of assets at their original cost excluding any valuations adjustments. The useful lives are the same as the fair value book.

Power and Water – Replacement Cost Book

This book contains assets recorded at their depreciated replacement cost. These values are maintained to inform pricing and regulatory matters as well as for insurance and valuation purposes.

3.15.4 IES FFARs

IES - Fair Value / Accounting Book

This book provides details of the IES assets valued at "Fair Value" in accordance with section 3.7 Fair Value Measurement and is used to support the annual financial statements, Statement of

Corporation Intent and budgeting and forecasting. As the fair value of IES assets is the depreciated recoverable cost, this book is also used for insurance purposes.

The useful lives are in accordance with section 3.14 Depreciation.

> *As IES is a not-for-profit and records its assets at fair value, it is not subject to the annual recoverable asset test as per AASB 136 - Impairment.*

IES - Historical Cost Book

This book provides details of assets at their original cost excluding any valuations adjustments. The useful lives are the same as the fair value book.

4 Organisation, responsibly and authority

Nil identified.

Role / Title	Responsibility

5 Document management

5.1 References

5.1.1 Legal regulatory obligations

- Nil identified

5.1.2 Controlled documents

- Nil identified

5.2 Definitions

Where terms or words are not included in the definitions section, refer to Power and Water's Glossary for clarification. The glossary is available on Power and Water's intranet.

Term	Definition
Abandoned asset	Existing assets that are no longer required for operational use. The assets are left in-situ as the costs to physically remove the assets may be deemed non-economical or not required.
Asset	To satisfy the definition of an asset there must be: • recognition the asset has a cost that can be reliably measured; • a resource controlled by the Corporation, as a result of past events and from which future economic benefits are expected to flow to the

Term	Definition
	Corporation; and • expected benefit of more than one financial year. Assets include a broad range of tangible items, including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, infrastructure, generation equipment, power networks, water and sewerage reticulation equipment and intangible items.
Asset category	A lower level category or grouping of assets that are similar in nature or function and have the same useful life.
Asset class	A category or grouping of assets that have a similar nature or function. Asset class is the lowest level of disclosure (ie no further dissection) of assets in the financial statements.
Asset enhancement	Asset related expenditure that increases the future economic benefits to the Corporation. It must give rise to an effective and material increase in an assets useful life, output or efficiency. Such expenditure is capitalised (ie treated as an asset).
Asset replacement	Expenditure that relates to replacement of an asset (component or complex).
Augmentation	Expenditure to upgrade the capacity of the general network in order to ensure that it is capable of supplying the current and future needs of the customers. Augmentation may contain elements of asset replacement and asset enhancement.
Available for use	An asset that is in the location and condition necessary for use and is capable of operating in the manner intended by management.
Book value	The net of the asset's cost less the accumulated depreciation.
Borrowings costs	Costs associated with the borrowing of funds; such as interest.
Capital contributions	A partial or total contribution by an external party for an asset that is being constructed by the Corporation and will be owned by the Corporation.
Capital expenditure (Capex)	Expenditure that creates future economic benefits over a period of time that extends beyond the current financial year. Capital expenditure is incurred when the Corporation spends money to either buy assets, build assets or to add to the value of an existing asset with a useful life that extends beyond the current financial year. In accounting, capital expenditure is added to the asset account (ie the expenditure is capitalised or undergoes the process of capitalisation).
Capital grants	The Corporation may provide a grant to a developer who is constructing assets that will then be gifted to the Corporation. This usually occurs when the Corporation has a strategic need for a larger sized (capacity) asset than the developer intends to construct to meet his specific development needs.
Capitalisation	The act of recognising the asset in the Corporation's fixed asset registers and financial reports as property, plant and equipment.
Capital spares	Spares for a particular asset, or class of assets, and which would become redundant if that asset or class was retired or discontinued.
Capital works in progress (WIP)	A description applied to assets when their purchase or construction has commenced but they are not yet put to use or held ready for use.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.
Complex asset	Assets that consist of component parts where each component can be recognised as a separate asset. Complex assets themselves may be

Term	Definition
	component assets of a larger complex asset.
Component	An asset that is part of a complex asset. Component assets are readily identifiable and will have materially different asset lives to the complex asset, and therefore require separate replacements during their useful life. Component assets are material and therefore justify the effort in separately tracking, both physically and in accounting terms.
Constructed asset	An asset built internally by the Corporation compared to being acquired through purchase.
Contributed asset	An asset constructed by the Corporation where some or all of the costs are recovered from a third party.
Control	The capacity to benefit from the assets use and to deny or regulate the access of others to that benefit.
Corporation	Power and Water Corporation and all subsidiary entities.
Cost	The amount at which an asset is recognised before deducting any accumulated depreciation and accumulated impairment losses.
Depreciable amount	The depreciable amount is the cost of the asset less the residual value.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life. The annual reduction in the value of an asset as its service capacity declines or deteriorates over time.
Depreciated replacement cost (DRC)	The amount that would be required currently to replace the service capacity of an asset. The price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.
Economic benefit	A benefit that can be expressed numerically as an amount of money that will be saved or generated as the result of an action.
External cost of sales	Projects that are completely funded by external parties to either construct new or modify existing assets. The assets at the completion of the project become the property of the third party.
Equipment	The name for physical assets from the maintenance and engineering perspective.
Fair value	The amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction at the point in time.
Fixed assets	An asset or product of value which enables services to be provided and has an estimated economic life of greater than one year. Fixed assets refer to all tangible and intangible assets.
Financial fixed asset register (FFAR)	The corporate system to financially manage the Corporation's assets. Forms part of the Financial Management System (which is currently Oracle Financials).
Funding	When management approves the expenditure for the purchase or construction of a particular asset. This occurs when the business case or purchase request is approved by the appropriate person within the delegation of authority.
Future economic benefit	The benefit expected to be delivered by an asset in future periods. The benefit relates to the nature and function of the asset, and may be measured in dollars or units.
Gifted assets	Assets that the Corporation acquires from external parties, generally as part of a subdivision development, ordinarily at no cost. Gifted assets can range from land to pipes, access chambers and pumping stations.

Term	Definition
Historical cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Infrastructure	The facilities and structures essential for the orderly operations of an economy. Utility and energy assets such as water, power generation, electricity and gas networks. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a greater number of years than most capital assets. Infrastructure assets are often continuous in nature. Infrastructure asset form part of Property, Plant & Equipment.
Insurance spares	A spare part kept on hand to ensure the uninterrupted operation of equipment in the event of an unexpected breakdown or equipment failure. They are not expected to be used in the normal course of business.
Intangible assets	An identifiable non-monetary asset without physical substance, usually as computer software or access rights.
IT assets	The abbreviated term used for information technology assets. IT assets include hardware, software, software upgrades, communications related hardware and software, other IT technical equipment, or plant and equipment relating to IT assets.
Leased assets	An asset that the Corporation has entered into an agreement with a third party for use or occupation. Leases may be financial or operating leases, dependent upon the conditions of the lease agreement.
Like for like	The replacement of a component of an asset with one that is the materially the same from an operational perspective. A 'like for like' replacement does not substantially increase the service capacity of an asset, in terms of performance, efficiency or life.
Maintenance expenditure	Is expenditure that is incurred to ensure an asset continues to provide its pre-determined service capacity and quality and achieves its useful life. Maintenance can be: **planned maintenance -** any maintenance activity which can be scheduled in advance. This includes scheduled preventive maintenance procedures and low priority corrective activities; **preventive maintenance** – particular planned maintenance relating to condition based, time based and routine type activities; **major periodic maintenance -** is maintenance that is material (in monetary terms), cyclical and incurred under a maintenance plan; and **unplanned maintenance -** any maintenance activity that has not been included on an approved maintenance schedule prior to its commencement, regardless of whether or not job templates and estimates are available.
Network asset	Is the equipment, plant or building used to convey and control the conveyance of, utilities (electricity or water) to customers whether wholesale or retail.
Non-specialised plant and equipment	Assets which do not relate to infrastructure assets (ie assets that are not related to water and power services). These assets include general equipment, vehicles, non-network IT and Communications.
Operating expenditure (Opex)	All expenditure that is not capital. It is therefore all expenditure that fails to meet the capitalisation tests, and will therefore be recognised in the profit and loss statement.
Operating unit	A group of assets that are used together to perform their function (ie pieces of individual furniture that are part of a boardroom set). These should be aggregated together when applying the capitalisation threshold.

Term	Definition
Parent asset	A single asset that is functionally complete. It is made up of a group of components.
Property, plant and equipment	Tangible items that: • are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes; • are expected to be used for more than one period. One period is defined by the Corporation as 12 months, and the 12 months may extend across multiple financial years; and • excludes intangible assets.
Qualifying asset	Assets that require a substantial period of time to prepare for intended use or sale.
Recoverable works	Projects that are funded wholly or partially by external parties to either construct new or modify assets. The assets at the completion of the project become the property of Power and Water.
Refurbishment	Extensive work required to bring the unit of plant up to current acceptable functional conditions, capital refurbishment occurs when is the work has the intention to enhance the assets economic benefits either through improved service capacity, improved service quality or an increase in the assets useful life.
Repair and maintenance	Action undertaken to maintain or restore a fixed asset to a pre-determined condition for the purpose of sustaining a given level of service delivery.
Residual value	The estimated amount Power and Water is likely to receive from the disposal of the asset, after deducting the estimated costs of disposal.
Rotables	A spare part which is reused after repair, usually as part of a cyclical replacement program.
Service capacity	Is the ability of the asset to provide the services required of it, in terms of performance, efficiency or life, e.g. water reticulation (pipes) has the capability to transmit water. Service capacity is increased by increasing the diameter of the pipes (increased performance) or adding a cathode for protection (increased life).
Service quality	Is the measurable quality of service that the asset provides. If the asset is used in the service delivery to the general public, the improvement is likely to provide an improved quality of service to the end users.
Units of plant	The lowest level of componentisation that is required for an item of property, plant and equipment.
Update	Expenditure that relates to the improvement of an asset life or service capacity.
Useful life	Is the estimated period of time over which the future economic benefits embodied in a depreciable asset is expected to be consumed. It may also be the estimated total economic benefit, expressed in terms of production or similar units that are expected to be obtained from the asset.
Value in use	The present value of the future cash flows expected to be derived from an item of property, plant and equipment or cash – generating unit.

5.3 Records

Information from this procedure is captured, stored and managed in the PWC Electronic Document and Records Management System (RM8) and controlled in the Controlled Document Register (RM8).

5.4 Review

This procedure will be reviewed, at a minimum, every three years or in the event of any significant change in system or process.

5.5 Document History

Date of Issue	Version	Prepared By	Description of Changes
31 March 2017	1.0	Martha Stewart	Revised and re-formatted
10/04/2017	1.0		Document approved by ARMC
04/10/2017	1.1	Jenifer Belford	Minor amendments to pages 4 and 6 agreed with CFO
04/10/2017	1.2	Document Controller	Minor adjusted to document format and structure, document re-classified as a Plan.

5.6 Attachments