DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION
UNITED NATIONS

Cover Note

Issue #15a – Decommissioning Costs

Outcome paper for global consultation

Outcome Paper Issue #15a: The Treatment of Decommissioning Costs

Issue description

The SEEA-2003 suggested more than one option in recording decommissioning. According to the 2008 SNA, decommissioning costs (terminal costs) lead to the creation of a fixed asset which has to be recorded as gross fixed capital formation in the asset accounts. Similarly, the asset account should in each period reflect a consumption of this fixed asset. The gross fixed capital formation is recorded at the end of the life time of the related asset, while the recording of the consumption of fixed capital takes place during the life time of the fixed asset. In order to estimate and record the consumption of fixed capital before the terminal costs actually takes place, it is necessary to estimate an expected terminal cost, which can be used as the basis for the calculation of consumption of fixed capital.

Background

The treatment of decommissioning costs, both terminal costs and remedial costs, is a significant issue in the context of environmental accounts since it relates to economic activity that is at the border line between the economy and the environment. The 2003 System of Environmental and Economic Accounts (SEEA-2003) notes that the 1993 System of National Accounts (SNA) does not discuss specifically how to treat these costs. The issue was picked up in the discussion on the revised SNA through the Canberra II Expert Group on the Measurement of Non-financial Assets and subsequently a treatment was resolved for inclusion in the 2008 SNA.

Summary of outcomes

SEEA-2003 covers the issue of how to account for terminal costs incurred when large production sites – for example, power plants or oil rigs – are decommissioned. It also considers the treatment of remedial costs to either restore land for other uses or to ensure that no harmful emissions from the decommissioned activity are able to cause environmental damage – for example, in the case of decommissioned land fill sites.

Remedial costs are defined as occurring both after production has ceased and when no provision for the costs has been made. Terminal costs must be both anticipated and incurred by the operator – if these two conditions are not fulfilled then they should be considered remedial costs.

The key recommendations related to this issue are consistent with the treatment of these costs in the 2008 SNA.

i. That where terminal costs are anticipated the costs should be depreciated as consumption of fixed capital over the life of the underlying asset and the expenditure recorded as gross fixed capital formation when incurred.

ii. That if the initial estimate of terminal costs is lower than the final costs actually incurred then these extra costs should be treated as gross fixed capital formation and immediately treated as consumption of fixed capital in that period. If the initial estimate of terminal costs is higher than the final costs actually incurred (or these final costs are zero for the operator) then the remaining value of the terminal costs at the time of decommissioning should be removed from the capital stock via the other changes in volume of asset account.

iii. That remedial costs be treated as gross fixed capital formation when incurred in circumstances in which the expenditure gives rise to a fixed asset – most commonly land improvements.

Questions

1. Do you agree that where terminal costs are anticipated the costs should be depreciated as consumption of fixed capital over the life of the underlying asset and the expenditure recorded as gross fixed capital formation when incurred?

2. Do you agree that if the initial estimate of terminal costs is lower than the final costs actually incurred then these extra costs should be treated as gross fixed capital formation and immediately treated as consumption of fixed capital in that period? Further, do you agree that if the initial estimate of terminal costs is higher than the final costs actually incurred (or these final costs are zero for the operator) then the remaining value of the terminal costs at the time of decommissioning should be removed from the capital stock via the other changes in volume of asset account?

3. Do you agree that remedial costs be treated as gross fixed capital formation when incurred in circumstances in which the expenditure gives rise to a fixed asset – most commonly land improvements?

4. Any other comments?

To submit responses to these questions please complete the accompanying comment form available on the website.

Deadline for comments: 28 October 2010

Supporting papers

Draft outcomes papers: (A) Depletion of Renewable Natural Resources & Recording Changes to the Stocks of Natural Resources (B) Recording the Ownership of Mineral-Related Assets, Paper prepared by ABS and presented to the 3rd meeting of UNCEEA, June 2008

The Revised SEEA and the environmental consequences of disposal of fixed capital, Peter Comisari, Paper presented to the 15th London Group meeting, December 2009