

BPA Policy 212-1

Property, Plant, and Equipment Capitalization

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1. Purpose & Background

1.1 Purpose

The purpose of this policy is to convey Bonneville Power Administration's (BPA's) policy regarding capitalized expenditures for Property Plant and Equipment (PP&E). In addition, the policy provides guidelines for consistent and accurate recording of PP&E assets as required for internal, external (Generally Accepted Accounting Principles (GAAP)), federal and regulatory reporting.

1.2 Background

This policy addresses criteria for determining whether expenditures are capital in nature. Capital expenditures result in one of the following:

- A. The creation of new assets
- B. The replacement of existing assets
- C. The modification of existing assets (described later in the policy)

PP&E capitalized expenditures fall into two asset categories:

- A. **Tangible:** Have physical substance and include items such as land, buildings and structures, machinery and equipment.
- B. **Intangible:** Lack physical substance and may include items such as software (e.g. power system control software), patents and copyrights. Intangible assets may also arise in connection with BPA capital construction work that relates to assets owned by others.

2. Policy Owner

BPA's Chief Financial Officer (CFO) has overall responsibility for this policy and assigns its implementation responsibility to BPA's Accounting Officer.

3. Applicability

This accounting policy applies only to expenditures for BPA's PP&E.

4. Terms & Definitions

- A. **Capital Expenditures:** Funds directly spent for the acquisition of a long-term asset, providing at least 1 year of service, not for sale. Capital expenditures also include allocated expenditures, such as overheads, that benefit future periods of the asset.
- B. **Unit of Property:** For each unit of property, the following items must be recorded:
 - 1. The name or description of the unit, or both
 - 2. The location of the unit

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3. In service date
 4. Installed cost
 5. The PeopleSoft Asset Management module asset profile
- C. **Major Unit of Property:** The smallest item of property which, when replaced or removed from service, must be retired from the electric plant accounts. Major Unit is also referred to as a retirement unit of property.
- D. **Minor Item of Property:** The associated parts or items of which major units of property are composed.
- E. **Repair:** Expenses incurred to keep Plant Assets in normal operating condition. These activities do not add to the benefits being provided by the asset, but instead enable the asset to provide the benefits originally expected of it.

5. Policy

FERC’s Electric Plant Instruction No. 10 – Additions and Retirements of Electric Plant in 18 CFR Part 101, *Uniform System of Accounts*, is the primary guideline used by BPA for identifying capital expenditures and major units and minor items of property. [BPA's Plant Unit Catalog](#) provides detailed descriptions of both major units and minor items of property. BPA follows FERC, as practicable, in accordance with the Standards & Procedures section of this policy.

BPA’s major units are listed in the PeopleSoft Asset Management Module and developed through past practice as well as interpretation of Federal Energy Regulatory Commission (FERC) guidance.

Unlike tangible assets such as PP&E, intangible assets derive their value from the rights and privileges granted. Tangible assets not owned or operated by BPA may be considered intangible assets if they provide a benefit to BPA, such as allowing for increased revenues or resulting in increased capacity, either singly or in combination with other assets. Coordinate with Asset Accounting when determining the existence of and appropriate accounting for intangible assets.

Note: Please contact Asset Accounting (FRPCONTRACTANDPA@BPASite1.bpa.gov) with any questions regarding this policy.

6. Policy Exceptions

This policy does not address capital expenditures for leasehold improvements, personal property, software or regulatory assets. Refer to separate BPA policies for these topics.

This policy does not apply to capital expenditures for the Bureau of Reclamation or the Corps of Engineers.

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7. Responsibilities

- A. **The Executive Vice President and Chief Financial Officer (CFO):** Delegated the authority by the Administrator to set accounting policies deemed necessary to keep complete and accurate accounts of operations, including all funds expended and received in connection with acquisition, transmission, sale of electric energy and other BPA services.
- B. **Accounting Officer:** Establishes accounting policy and provides technical accounting guidance on capitalization policies.
- C. **Accounting and Reporting Managers:**
 - 1. Provide accounting functional guidance for and oversight of BPA’s financial management systems.
 - 2. Establish BPA and Federal Columbia River Power System (FCRPS) accounting requirements and reporting mechanisms in compliance with applicable policies, laws and regulations.
- D. **All BPA Managers:** Establish operational procedures, practices and relevant training to ensure that work results conform to established BPA policies.

8. Standards & Procedures

8.1 Guidelines for Electric Plant Capitalizing Expenditures

- A. **Costs included in a unit of property:** The original cost of property is an important concept in plant accounting. Generally, original cost is the cost when a unit of property is first placed in service (i.e. energized). The original cost of a unit of property may include both acquisition cost and construction cost:
 - 1. Acquisition costs may include:
 - a) Land and/or land rights
 - b) Purchase price of the materials or unit of property
 - c) Related transportation, shipping, handling and similar costs necessary to ready an asset for service
 - 2. Components of construction cost are discussed in FERC 18 CFR Part 101 and primarily include:
 - a) Main material
 - b) The cost of all direct labor, materials and supplies, contract work costs, transportation and shop services

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- c) Directly related engineering management, supervision and administrative support costs; and an allocation of general and administrative (G&A) and overhead costs
 - d) Allowance for Funds Used During Construction (AFUDC), a generally accepted accounting principle whereby the cost of financing capital construction projects is added to the cost of the asset.
 - e) Plans and studies (e.g. safety, seismic, environmental), survey and mapping and design
- B. **Major units of property** are capitalized when originally installed, replaced or retired.
- C. **Minor items of property** are capitalized when originally installed as part of a major unit of property and expensed when replaced or retired independently. However, if the replacement constitutes either a substantial addition or substantial betterment, all or a portion of the expenditures may qualify for capital treatment.
1. **Substantial addition:** The addition of a substantial minor item of property that did not previously exist (i.e. was not part of the initial installation of the related major unit) is considered a substantial addition. To qualify as a substantial addition, the addition of a minor item shall substantially increase the capacity, operating efficiency and general utility or extend the service life of a fixed asset (18 CFR Part 101, Electric Plant Instructions, 10.C.(1)). If a minor item qualifies for a substantial addition, the minor item can be capitalized into the existing major unit (asset); otherwise, the addition of a minor item is recorded as maintenance expense.
 2. **Substantial betterment:** The replacement of a minor item of property that substantially increases the capacity, operating efficiency, and general utility, or which extends the service life of a fixed asset, is considered a substantial betterment and may be eligible for partial capitalization. If a minor item qualifies for a substantial betterment, only the incremental material cost (without labor) between replacing a minor item with betterment vs. replacing without betterment can be capitalized as part of the existing asset (major unit) (18 CFR Part 101, Electric Plant Instructions, 10.C.(3)). An example of a substantial betterment may be when BPA replaces bushings on power circuit breakers with higher capacity bushings.
- D. **Capital spare:** At times BPA acquires certain assets, such as transformers, that are not placed into service when purchased but held for future use. These assets are known as either capital spares or systems spares and must be dedicated to a location or temporarily placed at a hotline for future use. The initial acquisition costs of a spare that are capitalized include purchase of equipment and associated shipping/transportation cost, any BPA labor, contract work or materials and supplies related directly to the spare unit itself.
- E. **Preliminary engineering:** Expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under

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contemplation. Preliminary engineering costs are eligible for capitalization if construction will occur. If construction does not occur, these costs are transferred to expense.

- F. **Preliminary construction costs** are eligible for capitalization if the asset (major/minor units) and location are identified and there is an appropriate level of probability that the construction will occur. If construction does not occur, these costs are transferred to expense.

8.2 Guidelines for Operating and Maintenance Expense

A. Maintenance falls into two general classes of expenditures:

- 1. Maintaining the property in operating condition without the replacement of any parts
- 2. Repair or replacement of a minor item of property

Both classes of maintenance expenditures are for the purpose of preservation or restoration of the property to an efficient operating condition.

Expenditures for ordinary repairs necessary to restore facilities equipment to good operating conditions or maintenance necessary to keep them that way are charged to expense at the time costs are incurred.

Repairs or replacement of minor parts include both ordinary and extraordinary repairs. Ordinary repairs may consist of the partial reconstruction or replacement of worn or damaged parts. Minor modifications to a plant are charged to expense at the time costs are incurred. Extraordinary repairs to units of property result from unanticipated events such as storms, floods, lightning, fire, collisions, earthquakes, explosions or other such events.

Note: Extraordinary property losses should be discussed with Asset Accounting to determine if BPA should elect to use FERC Account 182.1, Extraordinary Property Losses. This election would allow BPA to defer these expenses to future years under the Accounting for Regulatory Assets and Liabilities Policy. Please contact Asset Accounting (FRPCONTRACTANDPA@BPASite1.bpa.gov) with any questions.

B. FERC Operating Expense Instruction defines the following activities as maintenance expense:

- 1. Direct field supervision of maintenance.
- 2. Inspecting, testing, and reporting on condition of a plant specifically to determine the need for repairs, replacements, rearrangements and changes and inspecting and testing the adequacy of repairs which have been made.
- 3. Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of a plant.
- 4. Rearranging and changing the location of a plant that is not retired.

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5. Repairing for reuse materials recovered from a plant.
 6. Testing for locating and clearing trouble.
 7. Net cost of installing, maintaining, and removing temporary facilities to prevent interruptions in service.
 8. Replacing or adding minor items of a plant which do not constitute a retirement unit.
- C. **Environmental Monitoring:** If a project carries with it an obligation to monitor certain environmental aspects for a period of time following the completion of the project, the costs of this effort will be treated as rehabilitation or restoration costs, and such costs will be treated as expense when incurred.
- D. **Research and Development (R&D):** The cost of research and development activities is recognized as expense in the period it occurred.
- E. **Relocating Assets:** If relocating existing major units between facilities, costs are expensed as incurred.

8.3 Guidelines for Other Capital and Expense Considerations

- A. **Environmental Costs:** Environmental contamination treatment costs should be charged to expense unless they meet any one of the following criteria, as per Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410-30-25:
1. The costs extend the life, increase the capacity, or improve the safety or efficiency of property owned by BPA. For purpose of this criterion, the condition of that property after the costs are incurred must be improved as compared with the condition of that property when originally constructed or acquired, if later.
 2. The costs mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations or activities. In addition, the costs improve the property compared with its condition when constructed or acquired, if later.
 3. The costs are incurred in preparing for property currently held for sale.
- B. **Spare Parts or Auxiliary Equipment:** For certain types of equipment, spare parts or auxiliary equipment, which are subject to use as normal periodic replacements, should be recorded as part of the normal maintenance expense. However, it is permissible to capitalize certain spare parts or auxiliary equipment which are essential for emergency needs, are associated with a specific, unique plant in service and are not subject to use as normal periodic replacement. Depreciation for these spare parts begins upon acquisition, extends over the asset's life and is expensed along with any replacement cost.

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- C. **Damaged Equipment in Shipment:** The cost of repairing a piece of capital equipment damaged in shipment is capitalized, net of any reimbursements, at the time the costs are incurred. All subsequent expenditures for tests, calibrations, adjustments, corrections, alterations and minor modification after equipment and facilities have been installed and/or placed in operation are charged to expense at the time costs are incurred.

8.4 Major/Minor Unit Decision Chart

In addition to [BPA's Plant Unit Catalog](#), the decision chart on the following page can be used to distinguish between capital expenditures and expenses. Asset Accounting recognizes that this distinction is not always clear-cut and should be consulted when capital vs. expense determinations are not easily identifiable. Asset Accounting makes the final capitalization determination.

Please contact Asset Accounting (FRPCONTRACTANDPA@BPASite1.bpa.gov) with any questions. See Appendix A on stages of construction and examples of cost matrix.

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9. Performance & Monitoring

Please see internal control narratives, listed below, for compliance with this policy:

- A. TS Business Case Creation and Approval
- B. TS Work Order Creation and Business Case Funding
- C. Work Order Review and Project Analysis
- D. Month-End Processing

Additional narratives may apply.

10. Authorities & References

- A. 18 CFR Part 101, *Uniform System of Accounts*
- B. ASC Topic 410-30-25, Recognition of Environmental Obligations, GAAP as issued by FASB
- C. [BPA's Plant Unit Catalog](#) available on BPA's Asset Accounting SharePoint Site

11. Review

This policy is scheduled for review in February 2026.

12. Revision History

Version Number	Issue Date	Brief Description of Change or Review
1.0	8/19/2015	Migration of content to new policy format. Updated review date.
1.1	2/24/2021	Non-substantive updates, including re-organizing the content and adding appendix A.

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Appendix A: Stages of Construction and Cost Matrix

This is general guidance and for informational purposes only. Final capital/expense determinations are made by Asset Accounting (FRP). Please send questions and determination requests to the FRP Contract and PAR Review mailbox.

Stages of Construction			
BPA Term – Pre-scoping Stage <i>GAAP/PwC Term – Preliminary Stage</i>	BPA Term - Preliminary Construction (PC), Scoping <i>GAAP/PwC Term – Pre-acquisition Stage</i>	BPA Term - Construction Stage <i>GAAP/PwC Term – Construction Stage</i>	BPA Term - Post Construction Stage <i>GAAP/PwC Term – In-Service Stage</i>
Expense With limited exceptions	Capital/Expense (as per matrix) If work does not result in construction, all costs will be expensed.	Capital (as per matrix) If work does not result in a functioning asset, all costs will be expensed.	Capital/Expense (as per matrix)
GL 600xxx	GL 107xxx/600xxx	GL 107xxx	GL 107xxx/600xxx
<p>Activities are performed <u>exploring the opportunities</u> for acquisition or construction of property, plant, and equipment (PP&E).</p> <p>The project is <u>not considered probable</u> of being constructed and has a <u>high degree of uncertainty</u> about the future economic benefits.</p> <p><i>Sources: ASC 720 Other Expenses; PP&E SOP and PwC Utility Manual 1.2.1.1; USofA, Operating Expense Instructions, 2. Maintenance, 2</i></p>	<p>Expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of <u>determining the feasibility</u> of utility projects under contemplation.</p> <p><u>Assets (major/minor units) and location are identified</u> and there is <u>an appropriate level of probability</u> that construction will occur.</p> <p>Administrative and technical activities prior to physical construction. The project is probable but pending approval by management with relevant authority.</p> <p><i>Source: ASC 835-20-25-3 Master Glossary definition of “Activities”</i></p>	<p><u>Capital expenditures for the project have been incurred</u> and activities necessary to get the construction project ready for its intended use are in progress.</p> <p><i>Source: FERC AR-5</i></p>	<p>The period when the project is <u>substantially complete</u> and the long-lived asset is <u>ready for its intended use (RIU)</u>. See Work Order Completion and Asset Unitization for more details.</p>

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Stages of Construction			
BPA Term – Pre-scoping Stage <i>GAAP/PwC Term – Preliminary Stage</i>	BPA Term - Preliminary Construction (PC), Scoping <i>GAAP/PwC Term – Pre-acquisition Stage</i>	BPA Term - Construction Stage <i>GAAP/PwC Term – Construction Stage</i>	BPA Term - Post Construction Stage <i>GAAP/PwC Term – In-Service Stage</i>
To move a project from the pre-scoping stage to the PC stage, approval must be received from FRP following the agreed upon process. Current FRP Process: Capital/Expense via the TPW SP site, via the FRP CONTRACT AND PAR REVIEW mailbox or through the Work Order review.	To move a project from the PC stage to the Construction stage, 1) approval must be received from FRP following the agreed upon process and 2) management with relevant authority must approve the project and commit funding. Current FRP Process: Capital/Expense via the TPW SP site, via the FRP CONTRACT AND PAR REVIEW mailbox or through the Work Order review.	A project moves from the Construction stage to the Post Construction stage upon completion of physical construction and energization.	A project is in Post Construction after energization and includes the period before asset unitization.

Type of Work/Cost	Description	Pre-scoping	Preliminary Construction (PC)	Construction	Post Construction
AFUDC	Interest capitalized during construction based on project type and status	Not Applied	Capitalize	Capitalize	Capitalized until asset is placed in service
BPA or contracted resources	Labor or contracted labor costs	Expense	Capitalize costs related to development of the scope, preliminary schedule and statement of work for a specifically identified project	Capitalize	Capitalize

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Type of Work/Cost	Description	Pre-scoping	Preliminary Construction (PC)	Construction	Post Construction
Construction Materials	Direct cost of materials should be capitalized into a construction project <i>See the Property, Plant and Equipment Capitalization Policy</i>	Expense	Should not occur during this stage	Capitalize	Expense
Contracted construction work	Contracted labor or material costs	Should not occur during this stage	Should not occur during this stage	Capitalize	Capitalize – invoices for work prior to completion can be applied to the work order after completion until the work order goes to Closed status
Design work	Capitalization eligibility of design work depends on when the work is performed in the overall process.	Expense	Capitalize	Capitalize	Expense substation documentation, environmental monitoring, etc. Capitalize the update of redlines through the overhead pool. After 1 year after completion, red line drawings will be expensed.
Inspecting, testing and reporting on condition of plant	Work specifically to report on the need for repairs, replacements, rearrangements and changes and inspecting and testing the adequacy of repairs which have been made.	Expense	Expense	Expense	Expense

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Type of Work/Cost	Description	Pre-scoping	Preliminary Construction (PC)	Construction	Post Construction
Land acquisition and associated costs	Generally capitalized in LA work orders if the work results in land or land rights <i>See Land and Land Rights Capitalization Policy.</i>	Expense	Contact FRP	Contact FRP	Expense unless directly related to delays by land owner to transfer rights
LIDAR activities	LIDAR activities in support of capital projects Contact FRP if clarification is needed.	Expense Monitor and identify vegetation clearance issues is a maintenance expense per FERC as it involves inspecting and reporting on the condition of existing plant for the purpose of repairs, replacements, changes, etc.	Capitalize If an agreement is in place for the LIDAR work to be performed before or during the construction stage as part of the specific construction project.	Capitalize Within the “contract work” category as defined by FERC. LIDAR work related to a specific construction project is used as a final inspection of the work performed by the contractor.	Capitalize If an agreement is in place for the LIDAR work to be performed before or during the specific construction stage as part of the construction project.
Meetings with customers for probable capital project	Includes discussions on technical, environmental, political and legal/contractual matters (include travel, lodging, salaries, etc.). Does not including project design activities and procurement of project materials.	Expense	Capitalize	Capitalize	Should not occur during this stage
Permits	The process of obtaining permits from governmental authorities.	Expense	Capitalize	Capitalize	Expense

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Type of Work/Cost	Description	Pre-scoping	Preliminary Construction (PC)	Construction	Post Construction
Studies mandated by a regulatory body	For example, NEPA studies	Expense	Capitalize	Capitalize	Expense

- **Other areas for consideration: Preliminary Survey and Investigation Charges as defined by FERC account 183 (Preliminary Engineering)**
 - Under FERC, preliminary engineering activities would not be recorded in the typical Construction Work in Progress (CWIP) accounts, but rather would be recorded in the 183 accounts dedicated to such activities. BPA internally discussed this option to capture the preliminary engineering work in a new PE project type and in account 183. However, we decided not to implement such a solution due to the following reasons:
 - The majority of BPA’s preliminary work is related to projects that are already determined to be probable of resulting in construction compared to “projects under contemplation”. Those projects have the assets and location identified and are considered “preliminary construction”. As such, true preliminary engineering projects will not occur often and will not be material.
 - The effort to set up the above process outweighed the benefits. It would require an entirely new set of accounts, mirroring the 107 accounts, a new project type, and processes set up within the accounting system. This would require a lot of resources from multiple groups in order to capture a small amount of projects.
 - If construction does not result, all preliminary construction costs are transferred to expense immediately, as required by GAAP.

Also, refer to the following Accounting policies located on the [BPA Policy Library](#):

- [BPA Policy 212-1 Property, Plant, and Equipment Capitalization](#)
- [BPA Policy 212-4 Personal Property Capitalization](#)
- [BPA Policy 212-7 Software Capitalization and Expense](#)
- [BPA Policy 212-9 Allowance for Funds Used During Construction \(AFUDC\)](#)
- [BPA Policy 212-11 Work Order Completion and Asset Unitization](#)

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