

# BPA Policy 212-10

## Fish and Wildlife Capitalization Policy

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## 1. Purpose & Background

### 1.1 Purpose

The purpose of this policy is to document Bonneville Power Administration's (BPA's) fish and wildlife capitalization policy, requirements and responsibilities.

### 1.2 Background

The BPA capitalization policy for fish and wildlife expenditures dates back to 1983 and has been developed based on BPA's unique statutory authorities, including those contained in the Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act).

This policy for setting a capitalization threshold for fish and wildlife costs is informed by the Northwest Power Act, which states in Sec. 4(h)(10)(B), that, "budgets for the construction of capital facilities with an estimated life of greater than 15 years and an estimated cost of at least \$1 million shall be funded in the same manner and in accordance with the same procedures as major transmission facilities under the Federal Columbia River Transmission System Act." In December 2011, Congress increased the Federal budget reporting threshold to \$2.5 million; however, BPA maintains a threshold of \$1 million for capitalization purposes. Based upon this guidance and provisions under Accounting Standards Codification (ASC) Topic 980, Regulated Operations, BPA capitalizes expenditures where expected future benefits may be reasonably determined for facilities that meet the criteria described above.

To capitalize costs under ASC 980, all of the following are required:

- A. The entity's rates for regulated services or products provided to its customers are established by, or are subject to approval by an independent third-party regulator, or by its own governing board empowered by statute, or contract to establish rates that bind customers;
- B. The regulated rates are designed to recover the specific entity's cost of the regulated services or products; and
- C. It is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to, and collected from customers.

## 2. Policy Owner

BPA's Executive Vice President and Chief Financial Officer (CFO) is the owner of this policy, and assigns responsibility for its implementation to the Accounting Officer.

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### 3. Applicability

This accounting policy applies only to BPA expenditures; it does not apply to expenditures of the U.S. Army Corps of Engineers or the Bureau of Reclamation.

### 4. Terms & Definitions

The following terms are specific for BPA’s Fish and Wildlife Program. Land acquisitions and facilities constructed are usually owned and managed by BPA project sponsors (e.g., states, tribes, and local agencies). BPA is the funding agency as required for statutory mitigation or regulatory compliance (such as implementing a biological opinion under the Endangered Species Act).

- A. **Fish and Wildlife Program:** Refers to BPA’s direct expenditures for fish and wildlife mitigation across the four northwestern states. Expenditures are directed at habitat enhancement and protection, hatchery construction and operations, research, monitoring and evaluation, and other similar activities. Spending on fish related hydroelectric facility costs are not part of the direct Fish and Wildlife Program but contribute to overall agency spending.
- B. **General Facility Construction:** Refers to the facilities constructed to implement the Fish and Wildlife Program. Facilities consist of hatchery and associated satellite structures as well as fish passage structures such as fish screens, culverts, and bridges.
- C. **Land Acquisition:** Refers to acquiring interests in real property, typically fee title or conservation easements, purchased for fish and wildlife protection and mitigation. The acquisitions count toward the fulfillment of BPA’s statutory protection and mitigation obligations.
- D. **Memorandum of Agreement (MOA):** A written agreement broadly stating basic understandings of tasks between BPA and another organization or government entity. It is a mechanism for coordinating activities.
- E. **Preliminary Project Stage:** The preliminary phase occurs before construction of the project is probable. Accounting guidance (ASC 720, Other Expenses) addresses costs associated with the start-up of a new facility and states that such costs should be expensed as incurred, with limited exceptions.
- F. **Settlements:** Refers to the Fish and Wildlife Program entering into binding agreements, typically using an MOA with states or tribes, to establish or agree on remaining statutory mitigation requirements for the development and operation of the Federal Columbia River Power System (FCRPS) dams from which BPA markets commercial power, and to budget commitments to extinguish the mitigation requirements.

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G. **Stewardship Payment:** Refers to lump sum payments to extinguish future operation and maintenance obligations for land acquisitions or other commitments that require continuous operation and maintenance funding.

## 5. Policy

Capitalization of BPA’s fish and wildlife costs is based solely on the recognition, under Generally Accepted Accounting Principles (GAAP), of BPA as a “Rate Regulated Utility” with the ability to capitalize costs, which would otherwise be expensed, as regulatory assets. This is based on the regulator’s intent to recover those costs in future rates.

The following fish and wildlife costs are capitalized as regulatory assets and amortized with a 15-year life, which is the same period those expenditures are being recovered in future rates.

### A. General Facility Construction

BPA capitalizes investments in facilities for fish and wildlife that are made to fulfill its obligations under the Northwest Power Act and other statutes. In order to be capitalized, investments must meet the criteria outlined below:

1. Rates must be set to recover the costs over time.
2. The facility must provide a measurable future benefit. This benefit is defined as fulfilling a legal obligation of the FCRPS.
3. The facility must have a 15-year life or greater.
4. Facilities must cost \$1 million or more. If the project includes facilities at multiple locations, the project may be capitalized if it meets the following additional criteria:
  - a) the facilities together must have a total cost of at least \$1 million; and
  - b) the facilities must be shown to be functionally interdependent (i.e., in order for the benefit of the project to be achieved, all of the facilities must be constructed).

### B. Land Acquisitions

BPA investments in land acquisitions for fish and wildlife (i.e., securing a real property interest such as fee title or a conservation easement for the primary benefit of fish or wildlife) are included in its capital program, consistent with the Northwest Power and Conservation Council’s Columbia River Basin Fish and Wildlife Program, provided such costs exceed \$1 million, and such investment provides a creditable and quantifiable benefit against a defined obligation for BPA. Acquisitions must meet all of the capitalization criteria outlined below:

1. Rates must be set to recover the costs over time.

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2. The property interest must provide a measurable benefit and irrevocable credit against the FCRPS’ legal obligations. For example, in the case of wildlife habitat acquisitions, BPA recognizes its right to take guaranteed credit against its mitigation commitments in the form of habitat units (as defined in each agreement) or acres. An agreement might also specify that all mitigation of a particular kind—e.g., dam construction impacts for wildlife or resident fish—will be completely fulfilled.

The minimum irrevocable credit obtained must be identified at the time of acquisition.

3. Acquisitions must have a 15-year life or greater. The 15-year threshold is met if the property interest for fish or wildlife habitat acquisitions is protected for at least 15 years (e.g., the land itself is protected and the credits are guaranteed and not reducible).
4. Acquisitions must cost \$1 million or more over the life of the mitigation project under which the acquisition is being made. BPA fish and wildlife may acquire land for one or multiple hydro facilities under the same mitigation project number to extinguish the construction, inundation, or operational requirements.

**C. Settlements**

1. Stewardship payments: BPA enters into fish and wildlife settlement MOAs to permanently extinguish a defined portion or all of a statutory obligation related to a specific dam or group of dams within the FCRPS. Under these settlements, BPA capitalizes stewardship payments when the payments extinguish any obligation BPA may have for the long term operations and maintenance funding of the real property specified in the settlement agreement. In many cases, this results in a stewardship payment for all acquisitions purchased up to the time of the settlement agreement and stewardship payments for each additional new acquisition made under the agreement.
2. Other commitments under Settlements: BPA’s commitments to future expenditures, such as habitat enhancement or administrative work, do not represent a current period expenditure. Therefore, they will be disclosed as commitments in the FCRPS Financial Statements. When incurred, these expenditures must be accounted for in accordance with this policy.

**D. Accounting for Fish and Wildlife Cost**

A project may consist of one or more contracts with various entities. Only the contracts, or portions of a contract, that relate to the capital portion of the project (defined below) may be capitalized. Annual operation and maintenance, research, monitoring and evaluation costs are always expensed.

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Activities performed during the preliminary project stage (preliminary costs) must be expensed.

Capitalization of costs begins when both of the following occur (derived from ASC 350-40-25-12, Intangibles-Goodwill and Other; Internal Use Software):

1. The preliminary project stage is completed.
2. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a capital project.

Project implementation

a) General Facility Construction

- i) Project costs for fish or wildlife construction projects that meet the capitalization policy listed under Section 5. A. above must be capitalized.
- ii) All work or costs incurred before breaking ground, including but not limited to design costs, shall be expensed. Already expensed items shall not be capitalized later if and when actual construction begins.

b) Land Acquisitions

- i) Purchase cost for land acquisitions that meet the capitalization policy listed under Section 5.B. above must be capitalized.

In the event there is a determination that a project no longer meets the capitalization criteria because of changes in project scope, etc., after capital costs have been incurred, these costs will be evaluated for proper accounting treatment, which may include expensing some or all of the costs in the period in which the determination is made.

For further guidance on applying this policy, contact Asset Accounting via email at: FRPCONTRACTANDPA@BPASite1.bpa.gov.

## 6. Policy Exceptions

This policy does not apply to expenditures of the U.S. Army Corps of Engineers or the Bureau of Reclamation.

## 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, and sale of electric energy, and other BPA services.

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- B. **Accounting Officer:** Establishes accounting policy and provides technical accounting guidance on capitalization policies.
- C. **Accounting and Reporting Managers**
  - 1. Provide accounting functional guidance and oversight to BPA’s financial management systems.
  - 2. Establish BPA and FCRPS accounting requirements and reporting mechanisms in compliance with applicable policies, laws and regulations.
- D. **Vice President Environment, Fish and Wildlife:** Responsible for the Environment, Fish and Wildlife Program implementation.
- E. **All BPA Managers:** Establish operational procedures, practices, and relevant training to ensure the work results conform to established BPA policies.

**8. Standards & Procedures**

The following costs for project activities are not capital:

- A. Administration work.
- B. Habitat maintenance or enhancement.
- C. Research, monitoring and evaluation: All work or costs associated with collecting information, planning, collection and analysis of data used to assess program operation and effectiveness.
- D. Operations and maintenance unless addressed through a stewardship payment.
- E. Preliminary cost: All work or costs incurred before breaking ground or acquiring property, including but not limited to design costs and preliminary planning such as investigations or surveys.

**9. Performance & Monitoring**

Compliance with this policy is through A-123 Internal Controls 3.C.5.a, ASC 980, Regulated Operations.

**10. Authorities & References**

- A. Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act)
- B. BPA Policy 212-2, Accounting for Regulatory Assets and Liabilities
- C. ASC 980, Regulated Operations

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D. ASC 720, Other Expenses

E. ASC 350-40-25-12, Intangibles-Goodwill and Other; Internal Use Software

## 11. Review

This policy is scheduled for review in 2022.

## 12. Revision History

<b>Version Number</b>	<b>Issue Date</b>	<b>Brief Description of Change or Review</b>
1	9/6/2018	New policy

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## Appendix A: Additional Background

### A. Fish and Wildlife Capital Project

The purpose of this document is to add clarity to the BPA capital policy for fish and wildlife assets.

For the BP 2020, the three types of fish and wildlife projects that BPA capitalizes are as follows:

1. **Fish Passage Structures:** Structures that enhance fish access to habitat in the Columbia River basin. Functionally interdependent work elements could contain the following: wells, ladders, screens, pumping, culverts, diversion (irrigation) consolidation, piping to reduce water loss, irrigation efficiencies (drip irrigation), lining of ditches (seepage reduction), removal of objects impeding fish passage, or pushup dams in conjunction with related construction, and construction related habitat restoration.
2. **Hatchery Facility Construction:** Projects and activities relating to the construction of fish hatcheries, including related satellite facilities (acclimation ponds and collection weirs). This may also include construction-related habitat restoration.
3. **Land Acquisition:** Land acquisition projects protect, enhance, and maintain instream wetland and riparian habitat and provide credit to BPA, such as habitat units (HUs) or acres for wildlife or instream miles/kilometers for resident fish, to fulfill the legal obligation of BPA to mitigate the impacts from construction and operation of the FCRPS power facilities.

### B. Additional Capital Project Information

The following additional information may be provided to adequately describe work and provide reasonable certainty that functionally interdependent actions in the sub-basin will meet the \$1 million threshold:

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1. Scope: A description of capital work broken down by location and cost (or locations and costs in the case of multiple construction sites).
2. Start/End Dates: The expected timeframe for the capital construction work.
3. Budget: A budget for capital construction by fiscal year and total capital cost for the entire scope of capital work, excluding the cost of inflation.
4. Project Lead: A single entity will be designated in the proposal as the project lead if there are collaborative efforts from multiple entities. Multiple contracts and contractors for the full project scope are acceptable, but there must be one designated project lead for the activities to be capitalized.

**C. Capitalization Process**

1. To ensure the efficient application of BPA capital funding, the Northwest Power and Conservation Council should recommend project proposals with potential capital construction components that comply with BPA capitalization policy. Project proposals with construction at multiple locations must be:
  - a) Classified: Submitted as one of the three types of capital actions described above.
  - b) Listed: Capital construction by location.
  - c) Costed: Listing of the annual capital cost of the construction during the fiscal year as well as the total capital cost. If construction is at multiple locations, a listing of the capital cost by each location; broken down by fiscal year capital costs and the total capital cost.
2. When a proposed project contains elements of both capital and expense funding, contracting will result in separate contracts: one contract for capital costs and a second contract for expense costs. An exception to this rule is for certain hatcheries contracts when the design and construction are done by the same contractor. In that case capital and expense costs are included under one contract and are charged to two separate work orders.
3. The appropriate BPA fish and wildlife manager shall provide the technical review and the BPA accounting liaison assigned to fish and wildlife shall provide the financial review before BPA will approve the project. BPA will document these capital project designations.

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