

BPA Policy 212-1

Property, Plant, and Equipment Capitalization

Finance

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212-1.1. Purpose & 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).

Property Plant and Equipment (PP&E) capitalized expenditures fall into two asset categories: tangible and intangible. Tangible assets have physical substance and include items such as land, buildings and structures, machinery, and equipment. Intangible assets 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.

Purpose: To convey Bonneville Power Administration’s (BPA’s) policy regarding capitalized expenditures for property, plant, and equipment.

Also, to provide guidelines for consistent and accurate recording of PP&E assets as required for internal, external (generally accepted accounting principles (GAAP)), federal and regulatory reporting.

212-1.2. Policy Owner

BPA’s Chief Financial Officer has overall responsibility for this policy, and assigns responsibility for its implementation to BPA’s Accounting Officer.

212-1.3. Applicability

BPA employees and contract personnel

212-1.4. Terms & Definitions

Capital Expenditures:

- A. Funds directly spent for the acquisition of a long-term asset, providing at least one year of service, not for resale.
- B. Allocated expenditures that benefit future periods as assets.

212-1.5. Policy

Federal Energy Regulatory Commission’s (FERC’s) Electric Plant Instructions No. 10 – Electric Plant Additions and Retirements in CFR 18 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

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Major Units and Minor Items of property. BPA follows FERC, as practicable, in accordance with the standards and procedures section of this policy.

Note: Please contact Asset Accounting with any questions regarding this policy.

212-1.6. Policy Exceptions

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

212-1.7. Responsibilities

- A. The authority for making accounting policy is vested in the Administrator and is delegated to the Executive Vice President and Chief Financial Officer (CFO).
- B. BPA’s CFO is delegated the authority by the Administrator to provide, on a BPA-wide basis, those financial management systems, policies, and procedures 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.
- C. The Accounting Officer is responsible for establishing policy, operational procedures and practices that implement reporting and accounting guidance and relevant training, ensuring that the work results conform to the established policies.
- D. Accounting and Reporting Managers provide functional guidance and oversight to BPA’s financial management systems and establish BPA and FCRPS requirements and reporting mechanisms, ensuring adequacy of internal controls and compliance with applicable laws, regulations, and internal directives.
- E. BPA Staff and Subject Matter Experts are responsible for following this policy.

212-1.8. Standards & Procedures

Guidelines for Electric Plant Capitalizing Expenditures

Costs Included in a Unit of Property

- a. The original cost of a unit 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:
 - i. Acquisition costs may include:
 - 1. Land and/or land rights
 - 2. Purchase price of the materials or unit of property

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3. Related transportation, shipping, handling, and similar costs necessary to ready an asset for service
- ii. Components of construction costs are discussed in FERC 18 CFR Part 101 and primarily include:
 1. Main material
 2. The cost of all direct labor, materials and supplies, contract work costs, transportation, and shop services.
 3. Directly related engineering management, supervision, and administrative support costs; and an allocation of general and administrative (G&A) and overhead costs
 4. Allowance for Funds Used During Construction (AFUDC)
 5. Plans and studies (e.g. safety, seismic, environmental), survey and mapping, and design

1. Major Units of Property: The smallest item of property which, when replaced or removed from service, must be retired from the electric plant accounts. Major Units are also referred to as a Retirement Unit of property. The Major Units are listed in the PeopleSoft Asset Management Module and are capitalized when originally installed, replaced, or retired. BPA's list is developed through past practice as well as interpretation of FERC guidance (18 CFR Part 101, Electric Plant Instructions, 10. Electric Plant Additions and Retirements).

For each unit of property, the following items must be recorded:

- a. The name or description of the unit, or both
- b. The location of the unit
- c. In service date
- d. Installed cost
- e. The PeopleSoft Asset Management module asset profile

2. Minor Items of Property: The associated parts or items of which Major Units of property are composed. Typically, Minor Items 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 (as described below), all or a portion of the expenditures may qualify for capital treatment.

- a. **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. A Substantial Addition can be capitalized into the existing Major Unit (asset); otherwise, the addition of a

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Minor Item is recorded as Maintenance Expense. In order to qualify for Substantial Addition, the addition of a Minor Item should substantially increase the capacity, operating efficiency, general utility, or extend the service life of a fixed asset (18 CFR Part 101, Electric Plant Instructions, 10.C.(1)).

b. **Substantial Betterment:** The replacement of a Minor Item of property wherein the replacement affects a Substantial Betterment and substantially increases the capacity, operating efficiency, general utility, or which extends the service life of a fixed asset may be eligible for partial capitalization. In a Substantial Betterment, only the incremental materials cost (without labor) of replacing a Minor Item with betterment and 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.

3. **Capital Spares:** 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 System Spares and must be dedicated to a location or temporarily placed at a hotline for future use. Capital Spare project types do not receive AFUDC or overheads since there is no construction. If relocating existing Major Units between facilities, costs should be expensed.

4. **Preliminary Engineering:** FERC defines Preliminary Survey and Investigation charges as expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation.

5. **Preliminary Construction:** 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”. Currently BPA’s preliminary engineering work is defined as “Preliminary Construction” if the assets (major/minor units) and location are identified and there is an appropriate level of probability that construction will occur. If construction does not result, then these costs are transferred to expense.

Note: Please contact Asset Accounting for guidance.

6. **Intangible Assets:** 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.

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Guidelines for Operating and Maintenance Expense

1. Maintenance falls into two general classes of expenditures:

- a. maintaining the property in operating condition without the replacement of any parts
- b. 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 and for 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.

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

- a. Direct field supervision of maintenance.
- b. 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.
- c. Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining the life of a plant.
- d. Rearranging and changing the location of a plant not retired.
- e. Repairing for reuse materials recovered from a plant.
- f. Testing for locating and clearing trouble.
- g. Net cost of installing, maintaining, and removing temporary facilities to prevent interruptions in service.
- h. Replacing or adding Minor Items of a plant which do not constitute a retirement unit.

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3. 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.

4. Research and Development (R&D): The cost of research and development activities is recognized as expense in the period it occurred.

Guidelines for Other Capital and Expense Considerations:

1. Environmental Costs: Environmental contamination treatment costs should be charged to expense unless they meet any one of the following criteria, as per FASB ASC 410-30-25:

- a. The costs extend the life, increase the capacity, or improve the safety or efficiency of property owned by BPA. For purposes 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.
- b. 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.
- c. The costs are incurred in preparing for sale property currently held for sale.

2. 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.

3. 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.

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212-1.9. Performance & Monitoring

Please see A-123 narratives, listed below, for compliance with this policy:

- A. 3.B.1-3 TS Business Case Creation and Approval
- B. 3.B.4 TS WO Creation and Business Case Funding
- C. 3.C.1.a Work Order Review and Project Analysis
- D. 3.C.2.a Month-End Processing

Additional narratives may apply.

212-1.10. Authorities & References

- A. CFR 18 Part 101, FERC's Uniform System of Accounts
- B. ASC Topic 410-30-25, Recognition of Environmental Obligations, GAAP as issued by Financial Accounting Standards Board (FASB)
- C. BPA's "Plant Unit Catalog" available on BPA's Asset Accounting SharePoint site

212-1.11. Review

This policy is scheduled for review in June 2020.

212-1.12. Revision History

Version	Issue Date	Description of Change
1.0	8/19/2015	Migration of content to new policy format. Updated review date.

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