



*Capital Asset Accounting – CWIP Team  
Capitalization Policy Determination*

**Date:** May 26, 2011

**Request received from:**

**Person:** Jim Vader

**Business area:** Energy Supply

**Capital Determination Request**

The steam turbine that was acquired from the Squirrel Creek project in 2008 has been in storage at a leased location since it was acquired. The material costs for the steam turbine is recorded in a Material and Stores Non-Rate base account. The ongoing leased storage and maintenance costs have been charged to O&M. The plan is to utilize the steam turbine for the Cherokee Combined Cycle project (Cherokee Unit 7). Energy Supply is seeking guidance on the appropriate accounting for moving the original equipment cost to a capital work order, and when or if it is appropriate to charge any of the related leased storage and maintenance costs to capital.

**Property Description:** Steam Turbine Generator

**Reference:** “First response”

**File Name:** Cap Policy\_Squirrel Creek Steam Turbine Cherokee 7- 6\_10\_11.doc

**Path:** S:\General-Offices-GO-03\CAPINFO\Intranet-ADM 1080 ACT\Capital Policy Determination Memos\Capital Review Determination Memos\Determinations Sent History

**Asset Analysis-ES/IT/Other Team Review:**

Following the request a general review of the facts concerning the storage and project activity, CAA reviewed the inventory and pre construction policies to provide guidelines.

A general overview of the process and timeline is as follows:

1) The equipment has been in storage since 2008 with the maintenance costs and storage fees booked to O&M.

2) Board approval and PUC overall CACJ project approval occurred in December 2010 with the requirement that formal CPCN project requests be submitted for commission approval before projects are approved for CWIP recovery. (Ref: Final Order Addressing Emission Reduction Plan pg 70)

3) CPCN Project approval for Cherokee 7 is expected to be submitted July 1, 2011 with approval expected in December 2011.

4) Tentative schedule for transfer of equipment from leased site to Cherokee 7 construction is not expected until 2013

**Asset Analysis-ES/IT/Other Team Review cont:**

5) Prior to equipment shipment various modifications to equipment will occur at the leased facility to prepare the generator for use at the Cherokee 7 location.

6) Lease storage fees and maintenance costs will be ongoing until the equipment is shipped to Cherokee 7.

**Decision:**

Based on CAA review CAA has determined the following:

1) Leased storage fees and maintenance costs incurred prior to board approval in December 2010, remain as O&M.

2) Lease storage fees and maintenance costs incurred after board approval in December 2010 and prior to CPCN approval can be charged to the capital work order using the non AFUDC JDE object account 731755, CWIP Contractor Retentions. Once the CPCN approval is received then the costs should be transferred to the regular CWIP object account, 731800 CWIP materials

3) Upon board approval received December 2010 the equipment costs can be transferred to the capital work order using the non AFUDC JDE object account 731755, CWIP Contractor Retentions. Once the CPCN approval is received then the equipment cost should be transferred to the regular CWIP object account, 731800 CWIP materials

If there are any changes in the facts stated above or time line for the project CAA can be contacted to provide a determination or recommendation

**CWIP Team Members:** Brenda Peavie Manager, David Adams Sr. Financial Analyst, Denise LeGault Sr. Financial Analyst

**Date Returned:      June 10, 2011**