



*Capital Asset Accounting – CWIP Team
Determination*

Capitalization Policy

Date: February 6, 2013

Request received from:

Person: Jim Vader

Business area: Energy Supply

Capital Determination Request

Energy Supply seeks guidance on the appropriate accounting method for the following:

1. Define the event that triggers switching consumable costs from Capital to O&M
2. Definition of In-Service for the Combined Cycle Plant
3. Definition of Commercial Operation for the Combined Cycle Plant
4. Definition of Final Completion for the Combined Cycle Plant

Property Description: Cherokee 2x1 Combined Cycle Plant

Reference:

File Name:

Path:

Asset Analysis/ES Team Review:

Following the request a conference call was held to discuss the facts concerning the commissioning events and the accounting significance of each event. CAA reviewed policies to provide guidelines.

An overview of the start-up and commissioning process is as follows:

- 1) 1st Fire CTG Unit 5 and synchronize to the grid
- 2) 1st Fire CTG Unit 6 and synchronize to the grid
- 3) Perform steam blows and restore steam piping
- 4) Roll STG & Synchronize to the grid
- 5) Ramp STG up to full load operation
- 6) Combined Cycle Plant In-Service
- 7) Conduct Functional Tests, Performance Test, Emissions Test, Reliability Test
- 8) Commercial Operation

Decision:

Based on CAA reviews, CAA has determined the following:

- 1) Combustion Turbine Generator Unit 5 and Combustion Turbine Generator Unit 6 consumable costs for each unit will be switched from being booked to the project capital accounts to being booked to the appropriate operations and maintenance accounts upon that unit's synchronization to the grid.. Separate natural gas meters on each unit will facilitate accounting of the amount of natural gas used over time. None of these consumable costs can be reclassified to capital at a later date.

- 2) The combined cycle plant will be declared In-Service and ready for it's intended use upon a successful 24 hour run at full load of all three units simultaneously during which all systems are operating in normal conditions,. At this time the Allowance for Funds Used During Construction (AFUDC) calculation will stop on all project Construction Work In Progress (CWIP) work orders. In-Service as-built forms will be submitted to CAA.
- 3) The Combined Cycle Plant will be deemed to have achieved Commercial Operation upon turnover of all three units to Operations,.
- 4) To facilitate timely closing of work orders, the Combined Cycle Project will achieve Final Completion within six months of the In-Service Date. All costs will be recognized to the work orders, final as-built forms will be submitted to CAA and the capital unitization process will follow.
- 5) If there are extenuating circumstances that cause capital costs associated with the completing the project to occur more than six months after the In-Service Date, CAA will make a determination to either grant an exception or require the original work orders to be closed and new work orders to be created.

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: Lisa Perkett Director, Brenda Peavie Manager, Kris Jenson Sr. Financial Analyst, Tim Montemayor Sr. Financial Analyst

Date Returned: February 6, 2013