

Capital Policy Determination Request Form

Complete this form for capital vs. expense determinations, policy changes, additions of new retirement units, or reclassify a minor item to a retirement unit. Please email the completed form and supporting documentation to the [CAA Cap Policy Requests](#) mailbox.

See [Capital Policy Determination Guideline](#) for additional information.

Project Information	Date Submitted for review: 8/22/14
Business area requesting review	ES Engineering & Construction
Project, equipment or activity being requested for review	Operations personnel support of CACJ 2x1 construction, operation, and maintenance
Material cost estimate	\$10,000
Labor cost estimate	\$500,000
Start date of project/activity	April 1, 2013
Estimated useful life	30 years
Locations affected by review	Cherokee CACJ 2x1 Construction
Project Work Scope (Details)	Construct new 2x1 gas operating plant
Capital Policy Reference	
Project manager or requestor	Jerry Kelly E&C PM

Background

What component (major or minor) or activity is in question, and why?

E&C staff is managing the construction and commissioning of the new Cherokee 2x1 plant. Cherokee Plant operators, mechanics, PETS, technicians, etc are assisting in certain aspects of this task. Other tasks that Plant operators have recently, or are currently, performing include:

- developing LOTO procedures for new plant equipment
- developing preventive maintenance tasks
- producing and hanging bar-code equipment tags
- other O&M preparatory procedure development
- developing spare parts lists/ordering spares

Since these tasks are O&M in nature, and do not directly support the construction and commissioning of the new plant, E&C is asking for a determination whether they should be charged to O&M or Capital.

Also, per the CAA letter attached in the Additional Information section below, E&C is asking if the labor costs noted above (if decided so) should end per the same criteria in the previous CAA determination (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)

If the current practice is an O&M activity provide the budget impact of the change being requested.

\$500,000 in budgeted Cherokee O&M labor costs would be funded by the CACJ 2x1 capital project should it be determined that the above tasks will be charged to Capital.

Reason the requestor believes the request should be considered for capitalization. Provide authoritative support if available. (attach additional sheet if needed)

Requestor is asking for a CAA determination if these (or some part thereof) Plant Operations & Maintenance staff labor charges should be O&M or Capital charges. Currently, the construction Project is planning on funding all classroom training under the capital budget. In addition to that, operator support for direct 2x1 construction and commissioning activities will be funded by the capital budget. E&C is not asking for a CAA determination for these training and commissioning activities.

Additional Information (attach additional sheet if needed). Helpful information includes, but is not limited to, description and/or picture of equipment and how it is used and/or website link that gives this type of information. Include any regulatory requirement that may be applicable.

Copied here is a letter CAA sent to E&C previously regarding Capital vs. O&M costs for the CACJ project (in red text).

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 intend 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

CAA response - (CAA use only)

The tasks performed by the Plant Operators are to develop processes and procedures for on-going operations at the plant. These documents are for future O&M activities and are not directly related to the construction and commissioning of the new plant. As such, the labor for these tasks that are being performed is O&M activity.

The tagging of equipment should be capitalized as part of the asset when done during asset construction. If done as part of inventory or asset list at later date-O&M.

This situation is different than the previous CAA determination as these documents are developed for future operations activity and are not considered a consumable cost. Because these tasks are operational they will not have an end date for classification as the consumables do for testing equipment before in servicing as stated in the previous CAA determination.

Financial accounting standards have addressed Startup activities and they are defined as one time activities relating to initiating a new process in an existing facility, or commencing some new operation. Start-up activities also include activities related to organizing a new entity (commonly referred to as organization costs). These costs of start-up activities, including organization costs, should be expensed as incurred.

These costs include setting up procedures for maintenance activities, operational processes, developing preventive maintenance activities, and general operational processes and reporting. Inventory development is not covered under this standard as it is covered under another guideline. Costs to develop lists and input parts information into inventory database is O&M.