Georgia Power

Georgia Power Company

General Accounting Procedure 55

Capital Projects and Capitalization Policy

Georgia Power

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1.0 Purpose of Capital Projects (project)

- The Federal Energy Regulatory Commission (FERC) requires a public utility to record all construction and retirements of electric plant using projects.
- Separate projects may be opened for additions to and retirements of electric plant. Retirement items should be identified separately from construction items within the project.
- The project system should show the nature of each addition or retirement of electric plant. Projects track total costs, the sources of costs, and the electric plant account(s) charged or credited.
- Projects provide management with a detailed description of the type of work being performed and estimated cost of the work.
- Projects provide the Corporate Property Accounting Department with the data necessary to update the continuing property records (CPR).
- Click the link below for the Project initiation procedure manual.
  Project Initiation Procedure Manual
- Click the link below for the project checklist that is used by the Property Accounting Department during final approval of each initiated project.
  Project Checklist

2.0 Review and/or Revision of Projects

Significant variances may occur between project estimated costs and actual costs. Variances can be caused by incorrect charges, changes in the work scope covered by the project, or lack of sufficient information on which to base the estimate.

The project estimate is the source for the unitization and retirement of assets for that project, and in some instances the FERC account assigned to a charge. The accuracy of the estimate is directly related to the correctness of the asset records in the CPR and the financial statements. Where changes are made in the scope of the project, quantities installed or retired, or the relative cost of additions, the project initiator should update the project estimate.

Project initiators are responsible for proper project management which includes, but is not limited to: timely/appropriate in-servicing/completion, maintaining updated estimates, properly identifying retirements, and reviewing project charges.

3.0 Project Adjustments and Cancellations

All charges must be cleared prior to changing the project Status to 'cancelled' in PowerPlan. The originating business unit is responsible for:

- identifying all charges cleared from the project
- the transfer of charges related to project cancellations within 180 days from the decision to cancel
- ensuring that these charges are transferred to the appropriate accounts see below in reference to capitalized overheads

Refer to *GAP 52 - Non-Electric Service Businesses (NESB)* for information regarding cost transfers to the appropriate accounts (expense, clearing, Non-Electric Service Billings (NESB), plant, etc.).

3.1 Cancellations/Transfers/Suspension of Capitalized Overheads

Contact the Property Accounting department (at G2GPCpa@southernco.com) if a capital project is suspended for an indefinite period of time; and/or with adjusting Capitalized Overheads such as Ad Valorem, E&S, or AFUDC.

- Ad Valorem costs are charged against the expenditure type VPT, E&S costs are charged against the resource type CES, and AFUDC costs are charged against the resource type CAE, and CAD.
- The table below describes each capitalized overhead and the eligible projects to receive these charges.

Capitalized Overhead	**Description of eligible capital projects**
Engineering & Supervision (E&S)	Allocated to all eligible projects in open or in service status. Allocation percentages are based off the work order type. There is no dollar threshold.
AFUDC	Calculated on project to date eligible CWIP. Applied using a rate calculated monthly in accordance with the Federal Energy Regulatory Commission (FERC) Electric Plant Instructions. There is no dollar threshold.
Ad Valorem	Allocated to all projects based on previous year CWIP balance. There is no dollar threshold.

3.2 Material Adjustment/Transfer

Refer to *GAP 61 - Accounting for Company Materials* for more information regarding company materials adjustments and transfers.

For assistance, please contact Consolidated Materials Accounting.

Material returned to the storeroom requires the use of a Stock Material Return Form. For assistance on completing this form, please contact Supply Chain Management.

Note: This excludes capitalized emergency spare equipment. Contact Property Accounting for assistance with spare equipment transfers (G2GPCpa@southernco.com).

4.0 Account Segments

- Capital projects validations should be submitted to the Property Accounting Inbox.
- Task validations/changes should be submitted to the appropriate budgeting analyst.

5.0 Project Statuses

Project initiators must continuously review projects for timely status changes.

- Initiated – Project has been set up but has not been approved.
- Open – Project has been approved and is neither suspended nor in service.
- Suspended – Project has been approved but is temporarily suspended.
- In Service – Project is in-service but not necessarily complete. AFUDC will cease and depreciation begins. Charges are transferred from CWIP to EPIS.
- Complete – Project is complete when the field reports it complete. This means the work is complete and all known charges have been collected. The project is ready for unitization perhaps after a waiting period.
- Unitized – Project has been unitized or is being unitized but has not yet posted to the CPR.
- Posted to CPR – Project has been closed to PIS and posted to the CPR in a unitized manner.
- Canceled – Project has been canceled and charges have been transferred to another project or expensed.

6.0 Work Order Monitoring Report

NOTE: THIS SECTION IS NOT APPLICABLE TO DWE's (Distribution Work Estimates). Distribution Management has assumed the responsibility of managing this reporting requirement including outdoor lighting projects. This includes all projects managed through JETS only.

The Property Accounting Department emails the Work Order Monitoring Report to the designated person from each applicable functional business unit. The Work Order Monitoring Report, with attachments, is distributed monthly before PowerPlan is closed for the month, (i.e., late February for the February closing).

The Work Order Monitoring Report contains the following:

- Open projects with no direct charges for six months or greater and charges greater than $500k,
- Open projects past the estimated In-Service month by three months or greater and charges greater than $500k,
- Open projects where the total actual costs exceed $10M
- Suspended projects

The following project issues should be considered:

- Closing projects that have not received any direct charges in six months or greater
- Closing projects that have passed the estimated completion date by six months or greater
- Changes in the project scope

Responses to the Work Order Monitoring Report are required each month. Responses from each applicable business unit must indicate if projects should either remain open (with a revised estimated completion date where applicable) or be closed to plant in service, and the appropriate action must be taken on each project as needed. Responses will be retained by Property Accounting. For those projects that should be closed, immediate action should be taken by the business unit to close the projects and notify Property Accounting of that action. Property Accounting will screen Power Plan to confirm such closures and maintain evidence to that effect.

To ensure the accuracy of the company's financial statements, projects should be placed in-service as soon as a project is ready for its intended use and completed when all known charges have been collected. For all open and eligible projects, capitalized overheads continue to be charged. When the status of projects is changed from open to in service, AFUDC is discontinued, but E&S continues until completed.

7.0 Capitalization Policy, adopted 4/1/2021

Per GAAP, capitalized Property, Plant, and Equipment (PP&E) consists of costs incurred during the construction of a long-lived tangible asset necessary to bring it to the condition and location necessary for its intended use. Once assets are in service, normal, recurring, or periodic repairs and maintenance activities that maintain the original life of the asset should be charged to expense as incurred. Costs that do not meet company thresholds for capitalization are expensed regardless of their nature.

7.1 Capitalization Thresholds

Category	Description
Production	Based on retirement unit. No dollar threshold. $5,000 per item threshold for Misc. Equipment accounts 316, 325, 335, and 346.
Transmission	Based on retirement unit. No dollar threshold.
Distribution	Based on retirement unit. No dollar threshold.
General	Based on retirement unit. No dollar threshold (Accounts 389, 390, 392, 396 and 397) $5,000 per item threshold for accounts 391, 393, 394, 395, and 398. Please see GAP 63, page 2 for exceptions.
Software	If purchased with computer as an embedded cost, it is capitalized as equipment and must meet respective thresholds. $50,000 threshold for internally developed or purchased software. However, software enhancements do not have to meet the threshold as long as the original software was capitalized, and the enhancements meet the guidelines set forth in ASC-350-40. Refer to the GPC Software Accounting Policy for more information. For additional guidance regarding accounting for software, please contact the Accounting Research Department.

7.2 Retirement Units, Substantial Additions, and Betterments

A **retirement unit** is a component of plant or equipment that is capitalized and eventually removed from service when retired, transferred, sold, or abandoned. Reference the Property Accounting Retirement Unit Manual for established retirement unit codes (RUCs). New RUCs can be submitted for evaluation using the New RUC Request Form. All Operating Companies must approve the addition of a new RUC.

Minor items of property are the associated parts or pieces of which retirement units are composed. Cost associated with minor items of property are expensed as incurred with the exception of a substantial addition. A **substantial addition** of a minor item of property exists when the cost of a minor item of property addition exceeds 20% of the installed cost of the associated retirement unit. Proposed substantial additions must be reviewed and approved by GPC Property Accounting before the capitalization of such costs can occur. All costs that do not meet the criteria of a substantial addition should be expensed as incurred.

Substantial betterment exists when the replacement or repair of an item of property makes the associated retirement unit more useful, more efficient, of greater durability, greater capacity, and/or extends the actual useful life of the property unit beyond the original expected useful life. Betterments under $300,000 are not eligible for capitalization. Proposed betterments must be reviewed and approved by GPC Property Accounting before the capitalization of such costs can occur. All costs that do not meet the criteria of a betterment will be expensed as incurred.

Capitalization Guidelines can be used to help the determination of whether a project meets the Company's capitalization policies or qualifies for review by Property Accounting.

Contact the Property Accounting Department (G2GPCpa@southernco.com) for additional guidance on capital versus O&M expenses.