

BPA Policy 212-12

Transmission Capital Indirect Costs

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1. Purpose & Background

The purpose of this policy is to provide guidance for consistent and accurate recording of capital indirect costs for reporting purposes.

This policy was created by Finance and Transmission and defines when it is appropriate for BPA Transmission Staff to charge to capital indirect work orders.

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 (AO) and the Senior Vice President, Transmission Services, as defined in the policy.

3. Applicability

This policy is applicable to BPA Transmission Staff.

4. Terms & Definitions

- A. **Capital Expenditures:** Funds directly spent for the acquisition of a long-term asset that provides at least one year of service and is not for resale. Allocated expenditures that benefit future periods as assets.
- B. **Corporate Overhead Costs:** Agency Services and General & Administrative costs aggregated into cost pools by function. These costs are subsequently allocated to Transmission Services capital and expense, or to Power Services expense.
- C. **Direct Charging:** A cost accounting method whereby department costs for labor, contracts, and materials and equipment are charged directly to construction work orders rather than to a general and administrative or indirect cost pool and subsequently allocated.
- D. **Direct Work Orders:** A systematically and distinctively numbered series of property records used as a managing device to authorize and control costs — usually costs related to acquisition of capital equipment, construction, or other costs classifiable as work-in-progress.
- E. **Incremental Costs:** Costs specifically incurred for construction that could have been avoided had the asset not been constructed.¹
- F. **Transmission Capital Indirect Work Order:** Whenever possible, engineering, supervision, administration, and other expenses are charged directly to capital work orders. However, since it is not practical to direct-charge certain costs, these costs are

¹ NARUC Uniform System of Accounts No. 59

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aggregated into an indirect cost pool and subsequently allocated to capital work orders.² Capital Indirect Work Orders are used by BPA employees to charge labor hours that are incremental to the Transmission capital program.

- G. **Major Unit of Property (Major Unit):** Also referred to as a retirement unit of property. A Major Unit is the smallest item of property, which when replaced or removed from service, must be retired from an electric plant’s accounts. See BPA’s [Plant Unit Catalog](#) for a list of Major Units.

5. Policy

- A. BPA employees working on the Transmission capital program may be able to charge labor hours to Capital Indirect Work Orders, so long as the costs are deemed eligible pursuant to accounting guidance established in Appendix A – *Capital Indirect Cost Matrix*.

Application of the Capital Indirect Cost Matrix is to remain consistent; frequent changes to the application of the policy, without a clear basis and legitimate need, could be deemed arbitrary and therefore not in compliance with FERC.

BPA follows FERC guidance, in accordance with applicable statutes.

B. Eligible Indirect Costs

1. The cost of a capital asset includes the incremental costs that have a definite relation to construction.³ Only approved capital expenditures that are incurred for the capital construction program may be charged to a Capital Indirect Work Order, which is subsequently allocated to eligible capital work orders.
2. Adequate records must be maintained to support and show the recorded total amount of each indirect cost for each year, the nature and amount of each indirect expenditure charged to each construction work order and to each utility plant account, and the distribution basis of such costs.

C. Ineligible Indirect Costs

1. Capital expenditures that can reasonably be identified and attributed to a specific project may not be charged to a Capital Indirect Work Order and should be Direct Charged to the appropriate capital work order.
2. Costs that cannot be directly associated with the capital construction program or are otherwise identified in FERC’s Electric Plant Instructions Operating Expense section are expensed as incurred. See Appendix A for specific examples of direct charge, capital indirect and expense items.

² BPA Accounting Manual: Overheads and Indirects Policy.

³ CFR 18 Electric Plant Instructions, Section 4. Overhead Construction Costs

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6. Policy Exceptions

This policy does not address labor hours for corporate costs included in overhead allocations. For more information, see [BPA Accounting Manual: Overheads and Indirects Policy](#).

This policy does not apply to organizations outside of Transmission that charge to Capital Indirect Work Orders. The provisions in this policy are subordinate to other Accounting Policies. Hydro projects are excluded.

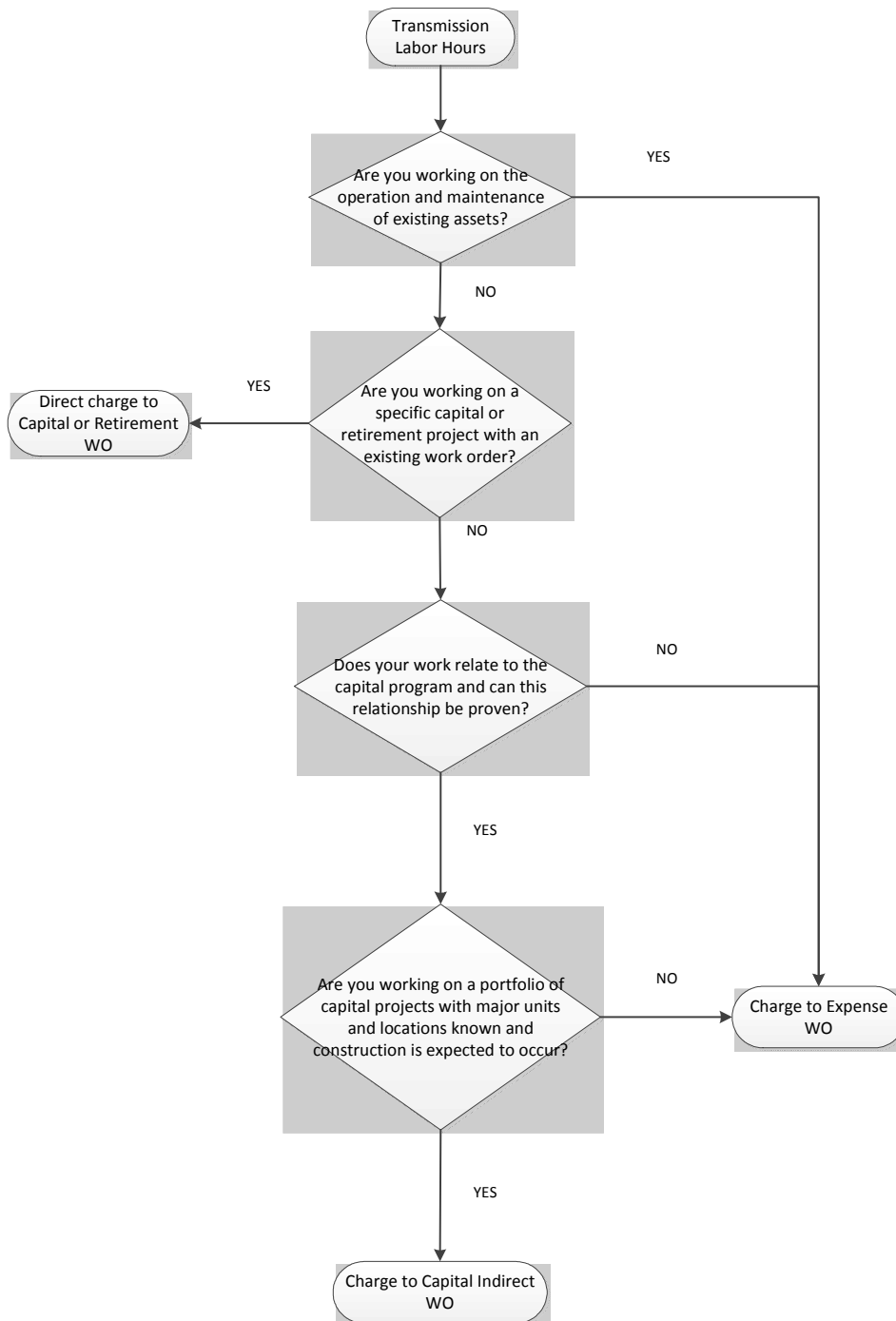
7. Responsibilities

- A. **The BPA Administrator:** Vested with the authority for making accounting policy, which is delegated to the Executive Vice President and Chief Financial Officer (CFO).
- B. **BPA’s Chief Financial Officer (CFO):** 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. **BPA’s Accounting Officer (AO):** Establishes accounting policy and provides technical accounting guidance on capitalization policies.
- D. **BPA’s Senior Vice President of Transmission Services:** Establishes and maintains the operational guidelines for Transmission Services.
- E. **Accounting and Financial Reporting Managers:** Provide functional guidance and oversight to BPA’s financial management systems and establish BPA and Federal Columbia River Power System (FCRPS) requirements and reporting mechanisms, ensuring the adequacy of internal controls and compliance with applicable laws, regulations, and internal directives.
- F. **The Managers for Transmission Asset Management Oversight and Program Support, and the Transmission Project Management Office:** Establish operational procedures and practices and relevant training, ensuring that the work results conform to the established policies.
- G. **BPA Transmission Staff:** Follow this policy and any associated Transmission guidance consistent with this policy. This policy takes precedence over any related guidance.
- H. **BPA Finance Staff and the Manager of Transmission Asset Management Oversight and Program Support:** Collaborate to update this policy to reflect any changes in accounting guidance or significant operational changes in Transmission.

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8. Standards & Procedures

A. Decision Tree for Transmission Labor Hours as Indirect Capital



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B. Procedure for Updating Appendix A: Capital Indirect Cost Matrix

If Appendix A needs to be changed or updated as a result of changes in accounting guidance or significant operational changes in Transmission, then Finance and Transmission collaborate on any proposed changes, as described in the steps below.

1. Transmission Services or Finance determines that there is a need for updating Appendix A – *Capital Indirect Cost Matrix*.
2. The organization that identified the need contacts the other organization and communicates need for update.
3. The Transmission and Finance organizations collaborate on the development of a proposal for an update to Appendix A.
4. The proposed update to Appendix A is reviewed by BPA’s AO.

If proposed update to Appendix A is not approved by BPA’s AO, go back to Step 3.

If proposed update to Appendix A is approved by BPA’s AO, submit the update to BPA’s Policy Program Office through their procedure for updating Appendices.

5. Once approved, Transmission communicates and posts the updated guidance.

9. Performance & Monitoring

Transmission and Accounting will develop (1) a process for reviewing the policy’s continuing effectiveness, and (2) compliance controls. The estimated timeline for completion of these tasks is April 13, 2018.

10. Authorities & References

- A. ASC Topic 360, Property, Plant and Equipment, GAAP as issued by Financial Accounting Standards Board (FASB).
- B. Code of Federal Regulation 18, Part 101 (FERC Uniform System of Accounts), Electric Plant Instructions, Section 4. Overhead Construction Costs.
- C. National Association of Regulatory Utility Commissioners (NARUC), Interpretations of Uniform System of Accounts for Electric and Gas Utilities, No. 59.
- D. [BPA Accounting Manual: Overheads and Indirects Policy](#).

11. Review

This policy is scheduled for review in 5 years after effective date.

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12. Revision History

Version Number	Issue Date	Brief Description of Change or Review
1.0	4/18/2018	New policy

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Appendix A: Capital Indirect Cost Matrix

This table is provided as a Transmission costs reference guide only and is not intended to be all-inclusive. Please contact Asset Accounting with any questions regarding this policy.

Capital Indirect	Accounting Guidelines Used for Determination
Administrative and general	Represents the costs of the labor and other expenses related to the office and general administrative staff that cannot be directly assigned to a construction project and that are incremental to the capital program.
Bench stock force account	Bench stock labor that cannot be directly assigned to a construction project and is incremental to the capital program.
Engineering and supervision	Represents the costs of the labor and other expenses related to the engineers, various technical staff, superintendents, and their assistants that cannot be directly assigned to a construction project and that are incremental to the capital program.
Leases for buildings	Only the current year percentage of costs to house administrative and general forces engaged in construction related work.
Reference books related to capital projects	Technical guides, reference material, and books that provide updates / changes related to engineering changes.
Safety gear (personal protective equipment)	Bulk purchase of items for individuals working directly on capital projects.
Studies – labor, non-site specific	The costs of studies mandated by regulatory bodies relative to plant under construction are eligible to be charged to the capital indirect pool. All studies related to specific projects should be direct charged.

Direct Charge to Project	Accounting Guidelines Used for Determination
Bare handling safety equipment	Direct charge bare handling safety equipment since it is used only for bare handling projects.

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Direct Charge to Project	Accounting Guidelines Used for Determination
Cameras – digital or disposable	Direct charge the cost of cameras consumed by a capital project, otherwise expense.
Computers – hardware	Hardware purchased must meet the \$10,000 Personal Property threshold on a per unit basis.
Construction bins/lavatory	Capitalize directly to the construction work order.
Contracts	Amounts paid for capital work performed under contract by other companies, firms, or individuals.
Employee transportation	Include as a component of construction cost the cost of transporting employees, material, tools, and equipment to and from points of construction.
Food service equipment	Food service equipment purchase must meet the \$10,000 Personal Property threshold on a per unit basis.
GSA enhancements/modifications	All items installed as part of original purchase package or any upgrades completed after the initial purchase that meets or exceeds the \$10,000 threshold on a per unit basis, otherwise expense.
Material	All material costs related to a direct project should be coded to the direct work order.
Preliminary engineering/pre-construction costs	Preliminary engineering/pre-construction work is capital in nature as long as it meets the capitalization criteria per the Property, Plant and Equipment Policy . All work is expensed if the project does not result in a Major Unit.
Survey flags & tape	Capitalize if consumed directly within a construction project. Treated like preliminary engineering: expense if it does not result in a capital project.
Survey – labor	Capitalize if consumed directly within a construction project. Treated like preliminary engineering: expense if it does not result in a capital project.

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Direct Charge to Project	Accounting Guidelines Used for Determination
Survey – tools	Capitalize if consumed directly within a construction project. Treated like preliminary engineering: expense if it does not result in a capital project. If tools are purchased separately, they must meet the \$10,000 Personal Property threshold on a per unit basis.
Test equipment	Capitalize if consumed directly within a construction project. Treated like preliminary engineering: expense if it does not result in a capital project. If test equipment is purchased separately, it must meet the \$10,000 Personal Property threshold on a per unit basis.
Training	For new and unconventional plant, equipment or facilities that have not previously been on the system.

Expense	Accounting Guidelines Used for Determination
Additional computer memory	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Airline agent fees	Agent fees are expensed.
Annual fees	External Professional costs - Society Fees, Dues, and Subscriptions.
Awards	Expense the costs of goods and services consumed or used during the current fiscal year.
Backpacks	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Cell phones	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Cell phone accessories	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Cleaning supplies (including paper towels)	Direct charge the cost of cleaning supplies consumed by a capital project, otherwise expense.

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Expense	Accounting Guidelines Used for Determination
Computer accessories	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Computer software	Does not meet computer software capitalization policy of \$100,000. Refer to Computer Software Capitalization Policy for capitalization guidance.
Data conversion	Data conversion activities are expense. Refer to Computer Software Capitalization Policy for capitalization guidance.
Employee orientations	Expense all training, tuition, and orientations.
Employee relocation costs	Expense any costs related to employee relocation.
GSA vehicle maintenance and repairs	Expense all maintenance and repairs on leased vehicles. Items include: install / remove tires, oil changes, and mud flaps. Repairs include items needed to restore the vehicle to operating condition.
Handheld computers	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Hitch, purchased individually	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Lanyards (including suspension straps)	Lanyards are use during a construction project and the cost should be consumed with the project or expensed.
Laptops	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Office supplies	Expense small items less than \$500.
Recognition Events/Celebrations	Expense all parties. Includes the costs of goods and services consumed or used during the current fiscal year. Please see HR Desk Reference 410-8-1 Employee Recognition and Awards for guidance on allowable costs and appropriate events.

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Expense	Accounting Guidelines Used for Determination
Rain gear	Expense small items less than \$500.
Racks (installed on vehicles) – purchased individually	Does not meet personal property capitalization threshold of \$10,000 on a per unit basis.
Research and development costs	FASB ASC 730.1 states that all R&D cost should be expensed.
Safety gear – prescription glasses, safety boots, arc flash clothing	Employee expense.
Small portable tools	Expense hand and other portable tools, which are likely to be lost or stolen.
Tires – BPA and GSA vehicles	All costs related to the installation / repair / removal of tires are expensed when incurred.
Training	Training costs are expensed unless incurred in conjunction with initial construction of unconventional plant facilities, where training is necessary to operate and maintain new facilities.
Travel	Expense travel unless it is directly related to a capital project or defined as incremental to the capital program.

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