

BPA Policy 212-12

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 staff to charge to Transmission Capital Indirect Work Orders.

2. Policy Owner

BPA's Chief Financial Officer has overall responsibility for this policy.

3. Applicability

This policy is applicable to staff charging to the Transmission Capital Indirect Work Orders.

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. This includes 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, and to Power Services expense.
- C. **Direct Charging:** A cost accounting method whereby department costs for labor, contracts, and materials and equipment are charged to a Direct Work Order 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 operations and maintenance.
- E. **Indirect Costs:** Incremental Costs in support of the capital program which cannot be practicably charged to a Direct Work Order.
- F. **Incremental Costs:** Costs specifically incurred for construction that could have been avoided had the asset not been constructed.¹
- G. **Transmission Asset Management Programs:** One of three Transmission program plans intended to provide a comprehensive and integrated view of the business, workforce, and financial performance. The Transmission Asset Management Program Plan clarifies BPA's objectives and metrics as they pertain to the construction and certain maintenance of Transmission assets.

¹ NARUC Uniform System of Accounts No. 59

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H. **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 aggregated into an indirect cost pool and subsequently allocated to capital work orders. Capital Indirect Work Orders are used by BPA employees to charge labor hours, materials, and contracts that are incremental to the Transmission capital program, but which cannot be practicably charged to a Direct Work Order.

5. Policy

BPA follows guidance set forth by the Federal Energy Regulatory Commission (FERC), in accordance with applicable statutes. Per FERC guidance:

“All overhead construction costs. . . shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs. . .”

Where possible, BPA employees should charge to a Direct Work Order. If it is not possible to charge to a Direct Work Order, it may be permissible for an employee to charge a Transmission Capital Indirect Work Order, as outlined below and further refined in [Appendix A – Capital Indirect Cost Matrix](#). Additionally, Corporate employees supporting Transmission construction and applicable maintenance programs should charge their time to the Transmission Asset Management Program Plan when it is not appropriate to charge to the Transmission Capital Indirect Work Orders.

A. Ineligible Indirect Costs – Must be Charged to a Direct Work Order

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 identified in FERC’s Electric Plant Instructions, Operating Expense section are Direct Charged to expense as incurred. These costs include the pay and expenses of superintendents, engineers, clerks, other employees, and consultants engaged in supervising and directing the operation and maintenance of each utility function, as well as the costs of maintenance chargeable to the various operating expense and clearing accounts, rents, and training costs ².
3. Costs that cannot be directly associated with, or which are not Incremental Costs to, the capital construction program, should be Direct Charged to an expense work order.
4. See Appendix A for specific examples of Direct Charge, Capital Indirect and expense items.

B. Eligible Indirect Costs – May be Charged to a Transmission Capital Indirect Work Order

² CFR 18 Electric Plant Instructions, Operating Expense Instructions, Sections 1-4.

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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 Direct Work Orders.
2. Adequate records must be maintained to support and show the recorded total for each year, the nature and amount of indirect expenditures allocated to construction work orders, and the distribution basis of such costs.⁴
3. See Appendix A for specific examples of Direct Charge and Capital Indirect costs.

6. Policy Exceptions

This policy does not address charges recorded as Corporate Overhead Costs included in corporate overhead allocations. Power projects are excluded.

7. Responsibilities

- A. **BPA’s Chief Financial Officer (CFO):** Delegated the authority by the Administrator to set accounting policies 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.
- B. **BPA’s Accounting Officer (AO):** Establishes accounting policy and provides technical accounting guidance on capitalization policies.
- C. **Accounting and Financial Reporting Managers:**
 1. Provide accounting functional guidance and oversight to BPA’s financial management systems.
 2. Establish BPA and Federal Columbia River Power System (FCRPS) requirements and reporting mechanisms in compliance with applicable policies, laws, and regulations.
- D. **All BPA Managers:** Establish operational procedures, practices, and relevant training to ensure the work results conform to established BPA policies.
- E. **Asset Accounting Staff:** Provide guidance consistent with FERC instructions and BPA policy when questions pertaining to application of this policy arise.
- F. **Business Line Review Staff:** Review charges to the Transmission Capital Indirect Work Orders made by the respective organizations to ensure compliance with the policy.

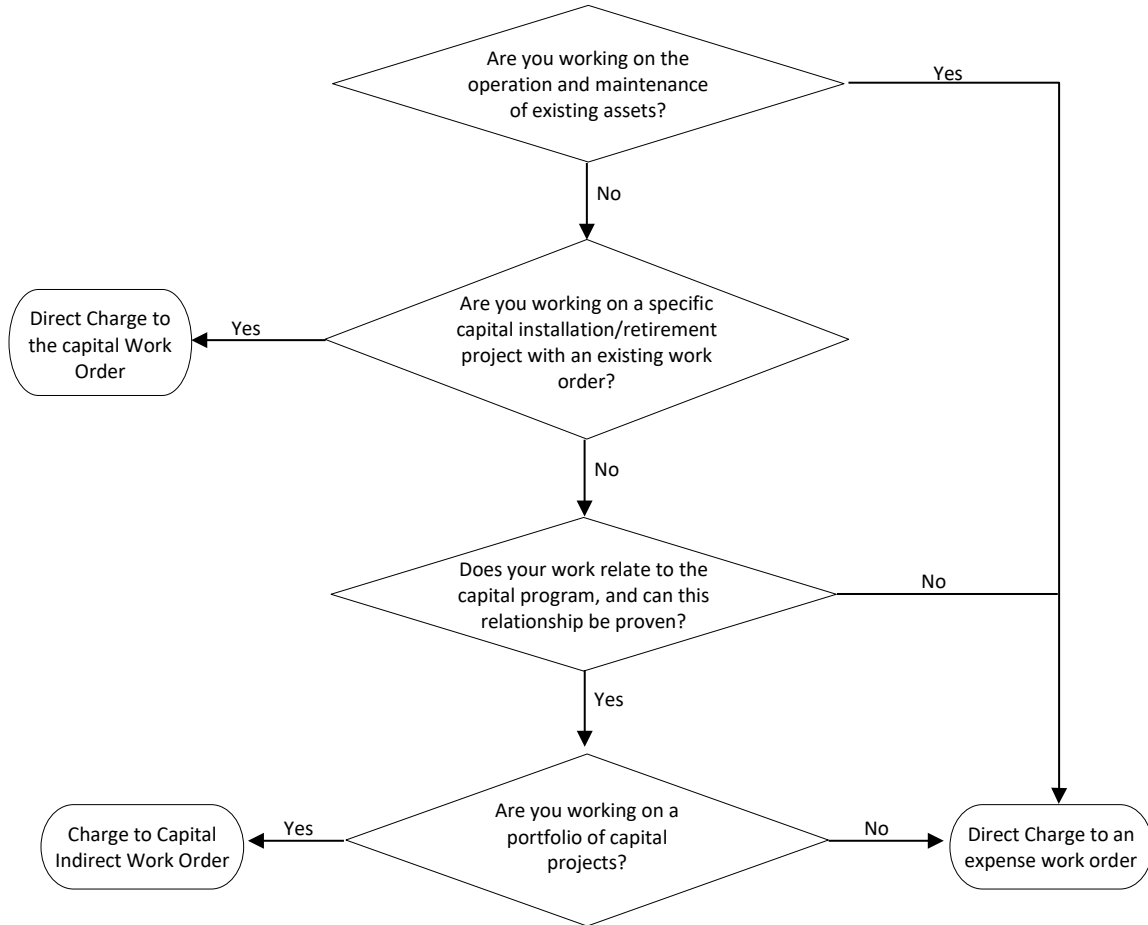
³ CFR 18 Electric Plant Instructions, Section 4. Overhead Construction Costs

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

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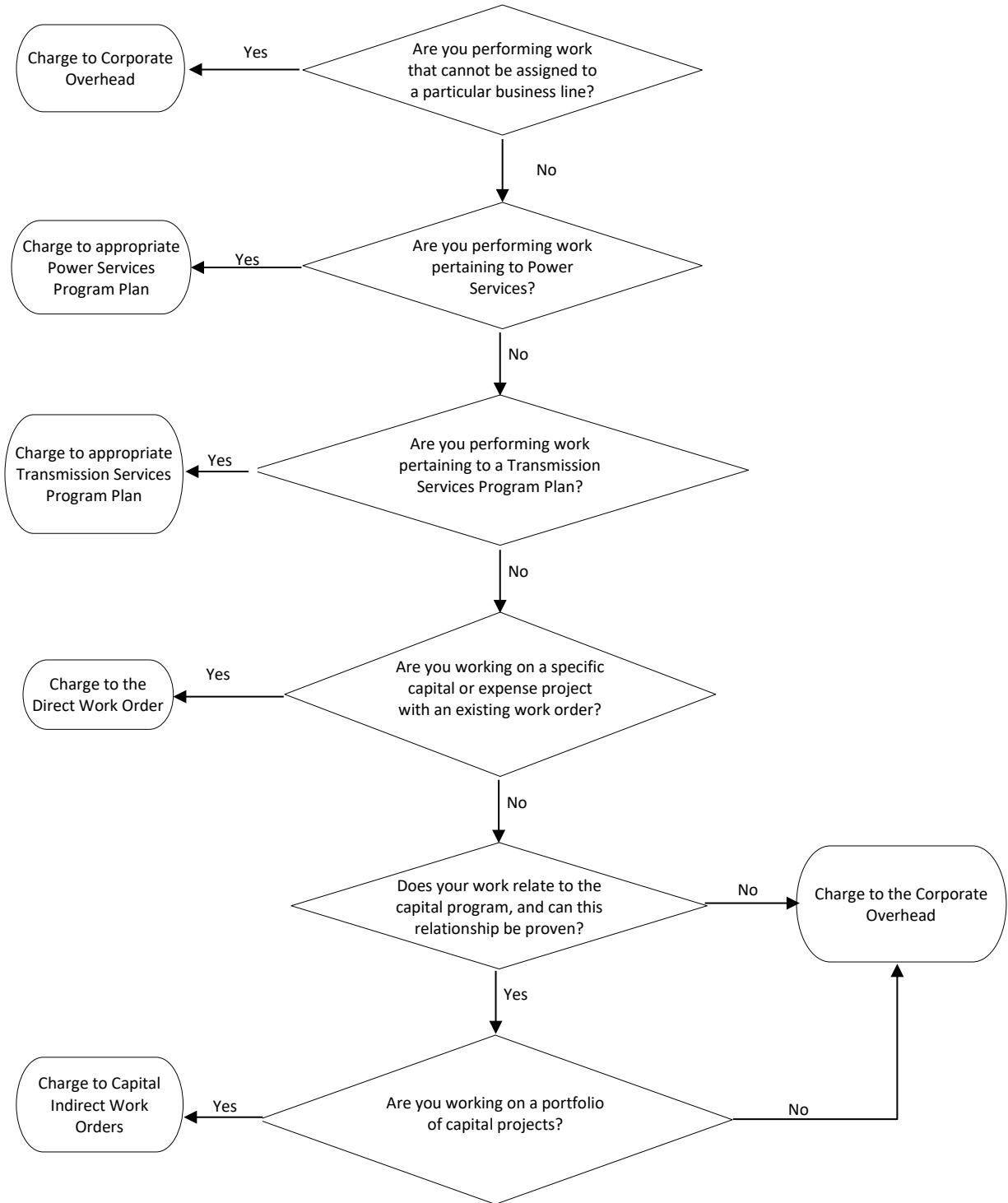
8. Standards & Procedures

A. Decision Tree for Transmission Labor Hours, Contract Charges, and Travel



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B. Decision Tree for Corporate Labor Hours, Contracts, and Travel



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C. Procedure for Updating 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.

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

1. The organization that identified the need to update [Appendix A – Capital Indirect Cost Matrix](#) contacts the stakeholder organizations and communicates the need for an update.
2. Asset Accounting Staff coordinate a review, performed collaboratively with stakeholders to develop a proposal for an update to Appendix A.
3. The proposed update to Appendix A is reviewed by the stakeholders.
4. The updated policy is taken to the Policy Working Group to either be published as a minor revision or, if the changes are substantive, for the full agency review process.
5. Once published, Finance, assisted by the stakeholders, communicates the updated guidance.

9. Performance & Monitoring

The Transmission and Corporate business lines will assign reviewers to ensure compliance with this policy. The Business Line Review Staff will perform the reviews no less than quarterly and will inquire with Asset Accounting Staff regarding unusual items. Reviews for the first through third quarters will be performed after the final month of the quarter just closed. For the fourth quarter, reviews will occur two weeks prior to the close of the month to allow for time to correct errors. An additional review will occur within the first two business days of the new fiscal year and corrections sent to Asset Accounting Staff for upload via 998 journal entry.

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
- C. National Association of Regulatory Utility Commissioners (NARUC), Interpretations of Uniform System of Accounts for Electric and Gas Utilities, No. 59

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11. Review

This policy is scheduled for review no less than 5 years after the most recent effective date.

12. Revision History

Version Number	Issue Date	Brief Description of Change or Review
1.0	4/18/2018	New policy
2.0	5/28/2024	Expanded scope to include application to all who charge to the Capital Indirect pool, not just Transmission. Added clarity to definitions, directive to direct charge, eligible and ineligible costs, and Transmission decision tree. Streamlined responsibilities section. Added a decision tree for Corporate charges. Revised procedure for updating Appendix A. Broadened Performance and Monitoring based on expanded scope of policy. Combined tables in the Appendix for ease of use and updated line items to better comply with guidance.

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Appendix A: Capital Indirect Cost Matrix

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

Item	Accounting Guidelines Used for Determination	Direct Charge, Capital	Direct Charge, Expense	Capital Indirect
Additional computer memory	See BPA Policy 212-4 Personal Property Capitalization.		X	
Administrative and general	Per FERC CFR 18, 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. See the decision trees in the Standards & Procedures section of this policy.			X
Analysis of operating results	FERC CFR 18 defines review and analysis of operating results as an operating expense.		X	
Analysis of operations and maintenance	FERC CFR 18 defines preparation or review of budgets, estimates, and drawings relating to operation or maintenance for department approval as an operating expense.		X	
Annual fees	External Professional costs - Society Fees, Dues, Subscriptions, other annual fees. FERC CFR 18 defines these as an operating expense.		X	
Bench stock force account	Bench stock labor and materials, direct charged to the project on which they were consumed.	X	X	
Cell phones, cameras, & accessories	See BPA Policy 212-4 Personal Property Capitalization.		X	
Cleaning supplies	I.e. paper towels, cleaning sprays, etc.		X	
Computer accessories	See BPA Policy 212-4 Personal Property Capitalization.		X	



Item	Accounting Guidelines Used for Determination	Direct Charge, Capital	Direct Charge, Expense	Capital Indirect
Computer software	See BPA Policy 212-7 Software Capitalization and Expense.	X	X	
Computer hardware	Includes desktops, laptops, handhelds, etc. See BPA Policy 212-4 Personal Property Capitalization.	X	X	
Construction bins/lavatory	Charge directly to the work order for which the bins/lavatory is being utilized.	X	X	
Consultants' fees and expenses	FERC CFR 18 defines consultants' fees and expenses as an operating expense.		X	
Contracts	Amounts paid for work performed under contract by other companies, firms, or individuals. See the decision trees in the Standards & Procedures section of this policy.	X	X	X
Data conversion	See BPA Policy 212-7 Software Capitalization and Expense.		X	
Efficiency Testing	FERC CFR 18 defines special tests to determine efficiency of equipment operation as an operating expense.		X	
Employee orientations	All training, tuition, and orientations.		X	
Employee relocation costs	Costs related to employee relocation, such as moving, temporary housing, selling costs of prior residence, etc.		X	
Employee transportation	Include as a component of a Direct Work Order the cost of transporting employees, material, tools, and equipment to and from points of construction.	X	X	
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.			X

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Item	Accounting Guidelines Used for Determination	Direct Charge, Capital	Direct Charge, Expense	Capital Indirect
Food service equipment	See BPA Policy 212-4 Personal Property Capitalization.	X	X	
GSA enhancements/modifications	All items installed as part of the original purchase package, or any upgrades completed after the initial purchase that meets or exceeds the \$10,000 threshold on a per unit basis must be Direct Charged to a capital work order. If the costs do not meet the threshold, they must be Direct Charged to an expense work order. Transfer of enhancements from one vehicle to another is expense. See BPA Policy 212-4 Personal Property Capitalization.	X	X	
GSA vehicle maintenance and repairs	All maintenance and repairs on leased vehicles. Items include, but are not limited to, installation/removal of tires, oil changes, and mud flaps. Repairs include items needed to restore the vehicle to operating condition.		X	
Hitch	See BPA Policy 212-4 Personal Property Capitalization.		X	
Leases/rents for buildings	Only the current year percentage of costs to house administrative and general forces engaged in construction related work may be charged to the related capital work order. All other costs, including rents, fees, taxes, maintenance, etc. must be charged to expense.			X
Material	All material costs related to a particular project should be coded to the Direct Work Order.	X	X	
Office supplies			X	
Organizational optimization	FERC CFR 18 defines establishing organizational setup of departments and executing changes therein as an operating expense.		X	

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Item	Accounting Guidelines Used for Determination	Direct Charge, Capital	Direct Charge, Expense	Capital Indirect
Preliminary engineering/pre-construction costs	See BPA Policy 212-1 Property Plant and Equipment Capitalization, including Appendix A of said policy.	X	X	
Preparation of instructions for O&M	FERC CFR 18 defines preparation of instructions for operations and maintenance activities as an operating expense.		X	
Process development and/or improvement	FERC CFR 18 defines formulating and reviewing routines of departments and executing changes therein as an operating expense.		X	
Racks (installed on vehicles)	See BPA Policy 212-4 Personal Property Capitalization.		X	
Recognition Events/Celebrations & Awards	Parties do not tangibly contribute to the completion of capital work. Includes the costs of goods and services consumed or used during the current fiscal year. Please see HR Directive 410-8-1 Employee Recognition and Awards for guidance on allowable costs and appropriate events.		X	
Reference books and standards related to capital projects	Technical guides, reference material, standards, and books that provide updates/changes related to engineering changes.			X
Research and development costs	FASB ASC 730.1 states that all R&D cost should be expensed.		X	
Safety gear, apparel, accessories	Includes, but is not limited to, arc-flash clothing & gloves.		X	
Secretarial work for Supervisors	FERC CFR 18 defines secretarial work for supervisory personnel, but not general clerical and stenographic work chargeable to other accounts as an operating expense.		X	

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Item	Accounting Guidelines Used for Determination	Direct Charge, Capital	Direct Charge, Expense	Capital Indirect
Small portable tools	Handheld and other portable tools, which are likely to be lost or stolen.		X	
Standards Development/Update	Developing/updating BPA standards for equipment.			X
Standards Testing	Testing equipment to determine whether it still meets BPA's standards or needs replacement is an operating expense.		X	
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.			X
Studies – labor, site specific	All studies related to specific projects should be direct charged.	X	X	
Survey – labor	Direct Charge to the project on which the materials are consumed.	X	X	
Survey – tools	Direct Charge to the project on which the materials are consumed. If tools are purchased separately, or will be utilized for multiple projects, they must meet the \$10,000 Personal Property threshold on a per unit basis. See BPA Policy 212-4 Personal Property Capitalization.	X	X	
Survey flags & tape	Direct Charge to the project on which the materials are consumed.	X	X	
Test equipment	See BPA Policy 212-4 Personal Property Capitalization.	X	X	
Tires – BPA and GSA vehicles	All costs related to the installation/repair/removal of tires are expensed when incurred.		X	
Training	Training costs are expensed unless incurred in conjunction with initial construction of unconventional plant which does not exist elsewhere on BPA's system, where training is necessary to operate and maintain the assets. In the case of training associated with the unconventional	X	X	

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Item	Accounting Guidelines Used for Determination	Direct Charge, Capital	Direct Charge, Expense	Capital Indirect
	plant, only the initial training may be capitalized (training the trainer), while all subsequent training is expense.			
Travel	Direct Charge travel to the project it supports unless it is not associated with a Direct Work Order and is defined as incremental to the capital program. See the decision trees in the Standards & Procedures section of this policy.	X	X	X

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